Nation's Business

A USEFUL LOOK AHEAD

JUNE 1959

LAWMAKER TELLS:

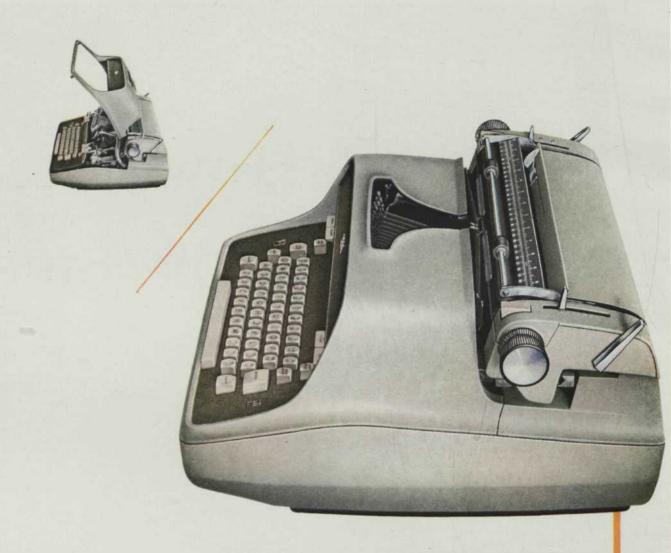
How your congressman becomes a spendthrift page 36

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Five tests for initiative PAGE 76

Where taxes go from here PAGE 40



this is the new IBM Electric New inside and out. New in its 28 advanced engineering achievements that make the IBM a more dependable typewriter than ever. New in its clean, low-swept sculptured lines—styling that will add beauty and prestige to any office decor. But best of all are the letters that this new typewriter can turn out... sharp, crisp, letter-perfect letters—with uniform inking and even alignment. Why not call an IBM representative for a demonstration today? We think you—and your secretary—will be impressed.

We must serve well to prosper We must prosper to serve well

The function of the telephone business is to serve the public and serve it well.

It works two ways. We must serve well to prosper. And just as surely we must prosper to serve well.

This doesn't mean for six months or a year or a couple of years but on a continuing basis. For the telephone business, more than almost any other, is a long-term business. Always we must keep building ahead to handle the needs of the country.

Those needs are growing every day. Just the gain in population alone gives some idea of their size.

By 1970 there will be 40,000,000 more people in the United States. More and more communications service and services will be required by people, industry and defense.

Such progress can come only if there is reasonable freedom for business and the encouragement to go full steam ahead that comes from good earnings. The benefits are widespread.

There is ever-increasing evidence that good earnings for the telephone company, with all that they

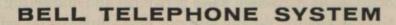


UNDER THE SEAS AND INTO THE SKIES are two great advances in communications. Submarine cables enable you to telephone overseas as clearly as across town. Far up in outer space, U. S. satellites derive their radio voices from the Transistor, the mighty mite of electronics invented at Bell Laboratories. It's through such pioneering that the Bell System keeps opening new fields to make your service ever broader and better. (Solid lines show present underseas cables. Heavy dotted line is new cable now being laid to Europe.)

mean in research, jobs and purchasing, are an important factor in the over-all economy of the country as well as in the best interests of telephone users.

If earnings are less than the needs of the task, and all energies and judgment must be devoted to meeting the pressing needs of the moment, it becomes impossible to do the best job for everyone. There is, indeed, no basis for the idea that the sure way to low telephone rates is to keep the company's earnings as low as possible.

Such a philosophy, by limiting research, efficiencies and the economies of long-term building, would lead almost precisely to the opposite result . . . poorer service at a higher price than you would otherwise have to pay.





Nation's Business

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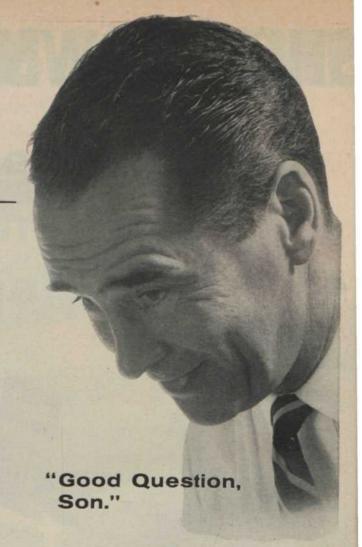
FIRST in city driving! This test was perhaps the most significant of all because it most closely matched actual on-the-job driving conditions-a balanced mixture of moderate, steady speeds and stop-and-go. And here Ford led by an amazing 42 %!

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"Yes, I like my job but I don't want to work forever. I won't have to, either. My company has seen to that by giving me a fine pension plan . . . and that's one

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management's WASHINGTON LETTER

MOVE UP your economic sights.

That's what government economists in

Washington are doing.

Nation's economy is picking up speed, moving along better than was expected a month ago.

New findings indicate:

Gross national product is likely to reach \$478 billion annual rate during third quarter this year.

Rate will climb to \$490 billion by

That's \$5 billion higher than previous forecast.

Estimated time for \$500 billion annual rate is now first quarter '60.

Until now it was thought that the half trillion dollar rate might come during second quarter of '60.

Last year's rate was \$437.7 billion.

▶PLANT AND EQUIPMENT SPENDING may rise considerably next year.

Rate now is about \$32 billion.

Fourth quarter rate is expected to be about \$33.5 billion.

But next year rate may jump to \$36-\$37 billion--comparable to '57 outlay.

Indication comes from unpublished survey of industrial machinery producers.

New orders have jumped 20 per cent in two months.

Trends in orders for new machinery precede plant and equipment trends by nine months to a year.

▶INFLATION PRESSURES will start to push harder by year end.

Probable result as seen by Washington specialists:

More creeping inflation ahead.

Spurting inflation, price upsurges are unlikely.

(Creeping inflation needn't come, either. Look on page 60.)

Key index to watch for clues to future is wholesale price index.

Trend foreshadows changes in Consumer Price Index.

Wholesale index situation is this: There's little change between any two weeks--but the index has been inching up

since last fall, is now a whole percentage point higher than October.

Consumer Price Index is approximately the same as a year ago.

In this index we've had the longest-

period of price stability on record.
Watch for it to start inching upward

before long.

By a year from now the index may be up as much as 2 percentage points.

▶ RESPONSIBILITY FOR INFLATION rests chiefly with federal government.

That's finding of an economic analysis made expressly for NATION'S BUSINESS.

Historically, most periods of price rises coincide with or immediately follow periods of increased federal spending.

Other federal activities also contribute to price push.

Setting minimum wages is one example. (How minimum wage hurts workers is explained on page 31).

NATION'S BUSINESS study also compares wages and profits.

Key finding:

Employe compensation in 10-year period accounts for 82 per cent of the increase in national income.

Profits before taxes account for 2.5 per cent of the rise.

▶ CONGRESS IS GEARING UP for big actions during two months ahead.

Adjournment target date is Aug. 1. In Capitol corridors congressmen say

they think target date will be met. Here's a rundown on issues important to businessmen:

Wage fixing--Thin possibility minimum wage may be extended to about 6 million workers; boosting wage floor to \$1.25 an hour not likely this session.

Economics--Effect of monetary policy on inflation will be studied by Joint Economic Committee.

Antitrust laws--Big push for passage of prenotification of business mergers.

Prices--You'll hear a lot more about a proposal to require businesses to notify government before any price increases go into effect, but passage is unlikely.

Price stability--Proposal would amend so-called full employment act to make the government responsible for stable prices; passage unlikely.

Department of Consumers-Law would set up a new department at cabinet level, but support isn't broad for this proposal.

Depressed areas--Federal aid to local areas with economic problems is

possible; Administration's request probably will be raised.

Aid to education--Pressure for this proposal is strong; outcome uncertain.

Foreign aid--Administration's request for funds probably will pass but emphasis will shift from military aid to economic aid programs.

Public power--Action due in Senate soon on self-financing bonds for TVA; watch for President to veto.

TWO THINGS TO KEEP IN MIND as the House considers labor reform:

- 1. Will the House bill be stronger or weaker than the Kennedy bill passed 90-1 by the Senate?
- 2. Will there be any legislation at all?

Kennedy bill isn't satisfactory to businessmen.

Among other things, it does little about secondary boycotts, blackmail picketing.

Prospect is that the House will pass a stronger bill.

Watch for President Eisenhower to sign it, probably in August.

THERE'S MORE BEHIND STEEL stockpile buildup than buying in anticipation of steel strike.

Business economists meeting in closed session in Washington say in many cases bigger stockpiles mean companies expect higher level of business activity.

Thus they've been buying steel at a fast clip to get ready for better business ahead.

Stockpiling previously has been attributed to the possibility of a steel strike starting in July.

Note:

Strike chances are increasing.
Unions handed industry wage and other
demands far larger than expected, say
they'll strike if necessary to get
largest wage hike package in union's
history.

Industry leaders, on the other hand, say they'll stand pat against raises that would force inflationary price increases.

▶PAY FOR TIME NOT WORKED is growing so rapidly that government will start measuring it.

To be included:

Paid vacations, holidays, other leave. But that's only part of the time-notworked that employers pay for.

What government doesn't plan to measure are such things as:

Time lost getting ready for work, time used in cleaning up, time spent by shop stewards on union business.

▶ GROWING UNION POWER is forcing more industries to join in mutual assistance arrangements for self-protection in strike situations.

Airlines and Hawaiian sugar industry have entered into separate mutual support pacts.

Basic steel and the railroads, currently facing showdowns with strong unions, reportedly are exploring similar arrangements for sharing extra profits with struck companies in their industries.

Mutual assistance between unions has been common practice for years.

Usually it is in support of a strike through secondary boycotts, refusal to cross picket lines, and other means.

Support often is financial, as indicated by these examples:

\$115,000 three unions gave striking Hat Workers Union, which also received \$335,000 in loans.

\$997,000 Walter Reuther's United Automobile Workers gave Westinghouse strikers, with another \$500,000 promised them by the United Steelworkers.

\$100,000 Ladies Garment Workers gave striking General Motors employes.

▶AUTO INDUSTRY IS HEADED into a new cycle.

High fins are finished.

Ahead is the era of economy car.

That's how a top car executive--Ford Board Chairman Ernie Breech--sums up auto outlook for years to come.

Industry will keep on making big cars but proportionate size of that market will shrink.

One reason:

A third of the letters Ford gets from the public demand an economy car.

So big-car makers are gearing up to begin a massive pitch for U.S.-built small cars.

But problems face the industry.

management's WASHINGTON LETTER

Here's example:

Auto industry will have to sell one and a half economy cars to make the profit one of the big cars produces.

That means the industry will be less profitable unless volume can be boosted. Here's revised outlook for car sales

this year:

Total sales of about 6.3 million. That includes 600,000 foreign cars, a little higher than executives saw a few weeks ago.

DUNEMPLOYMENT WILL RISE soon.

Total will go up as an estimated 1.8 million youngsters come out of school. Some will get jobs, some won't.

As a result, unemployment will rise next month and so will employment.

Unemployment will go down again in about 30 days.

By October, total out of work will drop to the neighborhood of 3 million.

WATCH AVERAGE HOURS of work.

That index is a good key to what's ahead for employment.

Here's the situation:

We have achieved the increase in production since recession bottom last year by increasing hours worked.

Employment has gone up roughly 4.5

per cent.

Man-hours are up 9 per cent.

This means that further increase in production will almost surely come from boosting employment.

Average hours in manufacturing now

exceed 40.3 per week.

That's two hours higher than the average a year ago.

►LOOK AT AMERICA'S long-range future. There's plenty of economic growth ahead.

But there'll be problems, too.

For example:

In years ahead large numbers of young people will be joining the work force each year.

Those who have education and training can look forward to many job opportunities.

But those who don't can expect trouble finding work.

Details of work force problems U.S. faces by '65 and after start on page 82.

▶YOU PROBABLY WON'T NOTICE any difference, but beginning next month all job statistics will be handled by the Department of Labor.

Department of Commerce is yielding responsibility for monthly total employment, unemployment and labor force statistics.

Collection of the data will still be done by the Census Bureau, under contract with the Labor Department.

Labor Department, in turn, will stop gathering construction data.

Statistics on housing starts, contract awards and construction expenditures will be handled, hereafter, by the Commerce Department.

SERIES OF SPECIAL REPORTS on economic subjects will be coming out soon.

Watch Vice President Richard Nixon's Cabinet Committee on Price Stability for Economic Growth.

Reports will include:

Economic growth, productivity, price stability, foreign economics, price and wage controls, monetary and fiscal policies and goals.

Note: These reports are sure to spark political -- and economic -- controversy.

►WATCH FOR PROFIT RISE to bring new actions by Federal Reserve to tighten money supply.

Works like this:

Business and industry, with more profits, can finance more expansion from earnings.

That means less demand on supply of money available for borrowing.

Which in turn means money won't be as tight as it would be if profits hadn't rebounded.

Therefore, Federal Reserve will take additional steps to tighten up on money supply in months to come.

▶ARE DEEP BUSINESS depressions going out of style?

Study shows how cycles are changing.
After Civil War there was a period of 8 years before collapse.

After World War I it was 11 years before crash came.

It's now almost 14 years since War II -- and, after 3 fluctuations, no crash is yet in sight.



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Business opinion:

Tax policy reversal needed

CONGRATULATIONS are due Rep. Thomas B. Curtis for his thorough knowledge and discussion of the effect of high income taxes on business growth [High Taxes Cramp Business Growth, April]. Unfortunately, those with his views are in the minority.

However, I cannot share his optimism that the future will see an awakening of those with power to

change the future.

As a partner in a small construction firm, I have found the acquisition of funds for increased working capital and investment in equipment a slow and painful process. To take paper profits and turn them into enough cash to meet our needs is quite a task in itself, with our efforts meeting a major hindrance in the form of Uncle Sam's prodigious cash appetite.

I am pessimistic about the future because in order to change the trend of the past decades, a complete about-face in the thinking of the people and their political representatives would be necessary. To expect a nation to change when its people are so enamored of the government-issued security handed out by vote-conscious politicians, is just too much to hope for.

Any economic system that exists on punitive revenues extracted from the financial successes of its entrepreneurs is doomed to eventual failure.

How painfully accurate was he who observed "that with taxes what they are, one doesn't have to take a civil service examination to be working for the government."

WARREN E. SCHMIDT Townsend & Schmidt Masonry Sacramento, Calif.

Vet's view

The article in the April issue concerning veterans' pensions [Storm Brews Over Vets' Pensions] was certainly timely and interesting. I hope it will help a lot more of our congressmen realize that they can stand up with impunity to the sacred cow of veterans' benefits.

By no means do all veterans sup-

port the views of the veterans' organizations which are so vigorously expressed. In particular, the American Veterans Committee has always opposed the pension grabs of some of the other organizations. Its slogan of "Citizens First, Veterans Second" has proved sound in this field as in many others.

> ALLEN EARLY, JR. Amarillo, Texas

Big union solution

I suggest a solution to the wageprice spiral that might simply and directly achieve the economic balance we must have—and have soon. Why should we not have a law that simply states that no union shall represent the employes of more than one employer? The great political and economic power of big unionism is then automatically eliminated.

H. LYNNE BARBER Cincinnati, Ohio

Capitalize on mavericks

I have just read in the April issue of NATION'S BUSINESS what executive traits are wanted now.

I think this article has been very well done and what the executive recruiters have to say is probably quite accurate and representative. However, this does not tell the whole story.

While it is true that when companies retain an executive recruiter they will emphasize the necessity of conformity, these same companies will go in exactly the opposite direction under other circumstances.

When there is a nonconformist in their own group, many company managements will go the second mile several times over to capitalize on what the maverick has to offer. This, of course, assumes that the maverick has something unusual to offer in the way of money-making schemes, or whatever.

Any number of companies very quietly recruit mavericks through their individual efforts rather than through the efforts of executive recruiters.

In sum, it's my conviction there are plenty of opportunities for non-



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conformists, provided they are really productive and not just being beatnik posers.

J. ELLIOTT JANNEY Partner Rohrer, Hibler & Replogle Cleveland, Ohio

The first thought that came to my mind when I read your article, "Wanted Now: These Executive Traits," was a mental picture of the mermaid. Consider her anatomy and you will find she can serve neither of her counterparts, man nor fish.

Many articles offer impractical solutions to business problems because they always deal with what the corporation would like in people. The answer is always some mythical creature who is not available—like the mermaid.

The great test for any management is whether it can take what is available and harness the desirable qualities of individuals to the objectives of the enterprise.

I am persuaded that a really creative person can, at best, be little of a conformist and vice versa because the emotional make-up and the thinking process in each area are as different as night and day.

I do not suggest that management disregard the desirable executive traits or that it should not constantly pursue some methods of training, supervision and motivation. I do suggest that there must be the climate for creative people to work in and that if I needed creativity in my business I would sacrifice only a little of it for conformity. A "creative conformist" who is a "proven profit maker" and one who, in addition, has "vision"—is a myth.

LOUIS AMATO Kansas City, Mo.

Aids small business

We find the magazine an excellent aid to the small business organization. We feel that most small business concerns are under the impression that the magazine is an aid only to larger concerns—until they have had the opportunity to read a few copies themselves.

ARTHUR H. FREEDMAN Freedman Window Cleaning Co. Canton, Ohio

We would like to take this opportunity to tell you how valuable the reprints of the various articles appearing in NATION'S BUSINESS have been to this rather small organization. They have been a valuable supplement to our efforts in the training of our personnel.

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COMING:

New wage measurement

Survey data will give employers better figures on productivity

NEW STATISTICS are being collected which will enable you to measure more accurately the actual cost of work performed and the trend of productivity.

For the first time, the Bureau of Labor Statistics is finding out how many of the hours employers pay for are actually worked and how many represent time off with pay.

The amount of nonproductive time employers pay for has grown so much since prewar days that the President's Council of Economic Advisers has asked BLS to measure the greatest part of it in order to get a better yardstick for measuring productivity.

Congress has appropriated \$50,000 for the current survey, which covers production and related workers in manufacturing plants for 1958. The findings should be available by late summer. BLS plans to survey some of the nonmanufacturing industries for 1959, others for 1960.

The new project is part of an over-all program which aims to improve the quality of, and fill the gaps in, government statistics which figure so importantly in major collective bargaining and other economic decisions.

To improve the Consumer Price Index, which regulates the wages of some five million workers, the Department of Labor has asked Congress for \$4.6 million. It wants to make the CPI reflect more precisely changed spending habits of city families since the last revision of the index in 1950. A one-point change in the index adds or subtracts \$200 million in the wage bill of some four million workers.

One gap in wage statistics was filled two years ago when BLS began collecting information on the amount of overtime being worked. The Council of Economic Advisers feels that knowing what's happening to overtime work helps provide a reliable indicator of where the economy is heading.

While the current survey is aimed primarily at improving the measurement of output per man-hour, which is just one way to measure productivity, it will also help indicate the cost of some of the major supplementary benefits that have come to be accepted in industry generally. The government has never measured fringe-benefit costs, but probably will have to eventually. This is a step in that direction.

The survey will determine the proportion of hours paid for which are not worked because of six kinds of paid time off:

- ► Vacations.
- ► Holidays.
- Sick leave.
- ► Military leave.
- Time off for jury duty, voting, and testifying in court.
- ▶ Personal leave for death in family and other reasons.

The survey will not go into other idle time paid for, which is not easily measurable or is relatively insignificant. This includes coffee breaks, wash-up time, paid lunch periods, rest periods, clothes-change time, travel time, get-ready time, and work time spent by union stewards and other employes on union business. Nor will it cover the cost of fringe benefits which are not related to working hours and the payroll, but add to and really are a part of total employment costs. These include health and life insurance, pensions, supplemental un-



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Furthermore, to live and work in the West is to really enjoy a healthful, contented existence. And that's an important factor in maintaining a high standard of employee morale. The time-worn phrase "Go west, young man" is still sound advice.

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WAGE MEASURE

continued

employment benefits and such legally required benefits as social security, unemployment compensation and workmen's compensation.

Even with these omissions the new BLS statistics will help you correct two basic defects in present statistics that have hindered planning and decision-making:

1. Average hourly earnings figures are generally computed by dividing the payroll by number of

hours paid for.

Because they do not take into account the increasing number of hours paid for but not worked, present figures do not reflect actual wage costs per hour worked, which are higher than the BLs figures. The extra cost increases in proportion to the increase in free time that is included in the computation.

Output per man-hour figures for manufacturing and nonmanufacturing are computed on the basis

of hours paid for.

This distorts what is really happening in productivity by including paid idle time as time worked. Actually, output per man-hour on the job has gone up more than the BLS figures indicate, just as pay per hour worked is higher than BLS figures on average hourly earnings would indicate.

Pay for time not worked increased from 6.1 per cent to 9.2 per cent of payroll during the 10 years ending in 1957, according to the latest biennial survey of fringe benefit costs of more than 1,000 employers conducted by the U. S. Chamber of Commerce. In cents per hour, the rise was from eight to 20.

On the six paid-time-off items being surveyed by BLS, the Chamber survey shows an increase over the 10-year period from 4.6 to 6.9 per cent of payroll, or from six to 15 cents per hour.

cents per hour.

The steel industry in particular believes that the total employment cost per hour worked is the fair measure of either the employe's standard of living or the employer's labor costs.

"The employe's standard of living depends not only on the money he receives in the pay check and what he can buy with it, but also on the protection provided by hospitalization insurance, life insurance, and pension provisions," a spokesman says.

The American Iron and Steel Institute computes total employ-

(continued on page 21)

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Let Mack users tell you the advantages of

Standout Stamina On Workaday Jobs



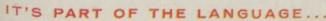
Sure—when you have mammoth loads to haul—you naturally think of rugged Mack trucks. It's a known fact that Mack owns the secret of building units for the kind of grueling work that grinds down other makes over the long haul.

But workaday Mack trucks are built with exactly the same attention; to the same standards of precision and skill. That's why users will tell you a Mack runs up such an astounding number of scheduled job miles, without time off . . . trims back outlays for fuel, maintenance and parts.

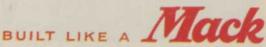
Let's say you operate ten trucks, more or less. Ask Mack to show you how much you'll save when you replace them with efficient Macks. Even if you operate one truck -ask Mack for the names of local users who can tell you how much a single Mack saves them every year.

Here's what one Mack user will tell you:

"Giving the best delivery service means delivering with the best equipment-so 100% of our fuel oil travels in Mack trucks. With up to 50,000 city miles per unit per year, we need the best transmissions-and get them in Macks. Our Macks have never had a breakdown due to mechanical failure. Our men say that they handle better than any other make." This is a statement by a fuel oil distributor with over 7,000 customers. Name and full facts on request.









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WAGE MEASURE

continued

ment costs per hour annually for the basic steel industry. According to its figures, the industry at the end of 1958 was paying an average of 23.5 cents an hour for time not worked, plus 33 cents an hour for pensions, insurance and other benefits not time-connected.

The rise has been steady in the two major items of paid time off for hourly employes: paid holidays and vacations. Pay for holidays was begun in 1953, and the cost has increased from 2.4 cents per hour the first year to 5.6 cents last year.

Vacations for hourly workers cost the steel industry an average of 1.2 cents an hour in 1940. Last year the cost was 17.7 cents.

Use of average hourly earnings, as published by BLS, can be misleading in indicating the extent to

which wage costs have risen and in comparing wages with output per

man-hour.

In most cases, wage costs have risen much faster and much more than average hourly earnings would indicate because of the concentration on fringe-benefit improvements in recent years.

As to comparing wages with output per man-hour, the steel industry cites this example of how it can be misleading:

From 1947 to 1957, average hourly earnings in steel, as reported by

BLS, rose 47 per cent.

Total employment costs as computed by the Institute rose 63 per

Output per man-hour for the total private economy rose 37 per cent, thus indicating that employes in steel were ahead of the game.

But average hourly earnings for all manufacturing rose only 33 per cent, which would indicate that the average factory worker lagged behind if no consideration is given to his total cost per hour to the employer, which most certainly would exceed the rise in output per man-hour.

Some in business would not like the government to get too much or too detailed information on wage costs because they feel it might be misused or misinterpreted.

But most business groups feel that it is better to know all the facts concerning employment costs so that the figures will reflect what they are intended to indicate and contribute toward more intelligent Policy determinations and collective bargaining.

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say Thelma Kelly & Theodore Caine, Jr.





"We lease a building in mid-town St. Louis to a bustling auto agency. It took the full impact of our recent tornado. When we saw the shambles, we honestly thought they'd be out of business for a long time.

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"Next day the auto agency was back in business-even sold a new car. All of us were pleased with the unusual help we got from Hardware Mutuals. A few days later we got our full claims check for \$24,881.03."

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TRENDS of Nation's Business

The state of the nation

Alien doctrines are dangerous imports

WHEN THE UNITED STATES Information Agency was established, shortly after the close of World War II, Congress wisely made provision for an Advisory Commission on Information, composed of prominent men in private life.

Information spread by a governmental agency, with the avowed purpose of influencing public opinion abroad, is—to call a spade a spade—official propaganda. And when the executive arm of the federal government sets out to propagandize, it is manifestly desirable to have this operation under continuous objective surveillance.

So Congress, not considering itself equipped for this direct supervision, established the nonpartisan Advisory Commission. Of its five members, three have served from the beginning, one of these veterans being the chairman, Dr. Mark A. May, who is director of the Institute of Human Relations at Yale University.

The current annual report to Congress of this commission is especially interesting because it sets out "to review and redefine the objectives and the proper functions of a United States Information Agency." Such review is deemed timely because of evidence that "a calmer international atmosphere and a reduction of international tensions" may now not unreasonably be anticipated. Under such conditions, if attained, the role of an official information agency would happily have less of the propaganda tinge. It would be primarily concerned with "building in the minds of more people a firm foundation of fact about the U.S.A."

In considering U.S.I.A. in this function of "Portrayer of the U.S. to Those Abroad" the Advisory Commission itself discloses a fact which some may find disturbing. Of the agency's approximately 11,000 employes, about 7,000, two thirds of the entire staff, are foreign nationals, working in the field.

These foreigners, in the aggregate, are regarded as invaluable to the service. They are naturally well informed on the customs, characteristics and peculiarities of the communities where the information centers operate. But, says the advisory commission, "most of them are not well informed about the United States." Many "do not feel that they are members of the team." The conclusion is that this problem of foreign nationals in a U.S. governmental agency "will continue to require the most careful re-examination and thought."

That is good advice, which the able director of the U.S.I.A. (Mr. George V. Allen) will doubtless take seriously. Yet some qualification may be made. In the first place the proportion of foreigners in the agency is comparatively less high than appears at a glance. For instance, the latest available

By Felix Morley



TRENDS continued

figures show that there are more foreign nationals than civilian Americans working for our military agencies overseas. At the end of March these employed 192,737 foreigners as against 183,060 American civilians.

Moreover, there is an important point which statistics do not illuminate. As the advisory commission emphasizes, the U.S.I.A. must be fully aware of all shades of public opinion in all the countries where it operates. Its role is twofold. The objective "is not to try to remake others in our image" but rather to tell them, accurately, just what they want to know about the United States. This requires advice from a representative crosssection of the communities where the information offices operate. And for each separate office the recommendations are likely to differ as the localities differ. To put the picture in reverse, an Indonesian official would scarcely expect to learn in Los Angeles just what the people of Boston might like to know about his country.

It is doubtless desirable that foreign employes of the U.S.I.A. should also be well informed on American conditions. But, since they only advise on programs, their knowledge of the locality where these operate is most important.

This is brought out by consideration of a parallel problem, not less important to Americans because it in no way concerns either the U.S.I.A. or its advisory commission.

. . .

This problem arises from the small army of often distinguished foreigners who, of recent years, have been moving in to become molders of American political and economic thinking. Their aggregate influence is not less subtle and persuasive because none of those referred to here are either officially or even consciously propagandists for the countries of their origin.

They are, almost to a man, intellectuals of excellent address and scholarly reputation. They are found on the faculties of most of our universities and colleges, in publishing houses and editorial sanctums, on lecture circuits, not infrequently in pulpits, indeed in all the important media of communication. Many of these expatriates are now naturalized Americans and few have any intention of returning to their countries of origin, which are for the most part our NATO allies.

Often unconsciously, but none the less effectively, these welcome and respected immigrants disseminate doctrine that is alien to the American tradition. Originally schooled under strongly centralized governments, where free enterprise is suspect and where socialism is conventional, these teachers naturally indorse trends of that character here. Their influence is the greater because they are so frequently gifted speakers and writers, usually with a cosmopolitan or even exotic appeal especially attractive to youth.

Most of us are happy to have good personal friends in the group thus described. And it would be unfair, as well as unnecessary, to cite any particular case. With the single individual there is seldom ground for any serious protest. Nevertheless, the cumulative effect of thousands in these key positions, throughout the length and breadth of the nation, is great. More fundamentally disturbing than the 64 per cent of foreigners in our information offices abroad is the perhaps 10 per cent "not well informed about the United States" found in professorships here at home.

. . .

There are, of course, many exceptions to the generalized observation here made. One does not forget that some of the most brilliant expositors of American civilization have been foreigners. None of our home-grown talent has ever explained our ways more clearly, more sympathetically and more helpfully than did Alexis de Tocqueville or Viscount Bryce. And there are recent arrivals of the same wholly objective and penetrating type who are contributing a similar service today. On the faculty of the Johns Hopkins University, as a single instance, is a young German professor who is already without question a leading authority on American Constitutional Government.

But these are the exceptions. For the most part the foreign-born intellectual in this country is not particularly interested in the American tradition. He is much more likely to see weakness rather than strength in our political system of checks and balances, and in the philosophy of free enterprise which federalism safeguards. He has been schooled in the assumed advantages of government controls and that is what he tends to advocate here.

If a well balanced and factual understanding of the United States is important abroad, it is certainly no less so here at home. And the percentage of foreign-born engaged in that instruction on things American is less important than the objectivity with which they teach.

Finally, it is clearly necessary that Americans should themselves be better informed on the economic and political importance of their traditional way of life. Those who advocate socialism in this country are successful not so much because they are intellectually persuasive, but rather because too much of our youth has never been exposed—at home or at school—to the fundamental principles of which our material prosperity is a mere reflection.



Big Bonus of New Lennox Year-round Air Conditioning

Scientists are gravely concerned about circulated on a principle that assures was best for drug store use. Today, the air we live in. They find it dumping millions of tons of dirt and grime on us annually. They worry about its effect on health.

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Out of their concern, more people are turning to year-round air conditioning provided by Lennox. For Lennox year-round air conditioning is much more than just a source of greater comfort, winter and summer; as a valuable bonus, it brings you healthful . . . clean air!

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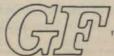


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Washington mood

Politics boil, though nothing seems to happen

Writing about politics is different from anything else in journalism. A reporter who undergoes the familiar training—covering police headquarters, general assignments, sports events and the like—has a hard time when his editor puts him on the political beat. This is because so little that is going on seems worth writing about.

The reporter has been trained to cover the concrete, an accident or a disaster, say, in which people are killed or maimed; or meetings and conferences, where his job is simply to report on what is said or done.

When he makes the transition to political reporting, he is at first puzzled. Although nothing much appears to be happening—on the surface, at least—he notices that older political reporters always seem to have plenty to write about, and in entertaining fashion, too.

The neophyte ultimately catches on to what makes political reporting different. He learns that it is based largely on talk—or, if you like, gossip or speculation, the kind that takes place in the Senate and House cloakrooms or in smoke-filled hotel rooms.

The reporter may be shocked at first, and it may even occur to him that this is an irresponsible kind of journalism. But then he comes to realize that this year's political speculation often becomes next year's political reality—a nomination or perhaps a victory at the polls.

He also learns that politicians can guess wrong, and that, therefore, predictions are hazardous. But, just as boxers probe each other's weaknesses in the early rounds, so politicians are already sparring verbally a year and a month before the two parties hold their national conventions to choose nominees for President and Vice President and to adopt platforms for the 1960 campaign. From the Washington ringside, the action looks like this:

The Republican professionals, with few excep-



By Edward T. Folliard

tions, now take it for granted that Vice President Richard M. Nixon (barring the unforeseen, like a blow to his health) will be their party's nominee for President after the convention in Chicago. They can't at this time see Gov. Nelson A. Rockefeller of New York heading off the Californian for the No. 1 prize. Their fondest hope is for a Nixon-Rockefeller ticket.

As for the Democratic pros, they say that the battle for the presidential nomination in their party is wide open. They say further that it may well continue to be wide open right up to the balloting in Los Angeles. If there is anything surprising in the Democratic picture, it is a growing hunch that the nominee might turn out to be Adlai E. Stevenson, despite his defeats in 1952 and 1956.

The situation in the Republican Party is not

TRENDS continued

quite what some politicians in Washington thought it would be eight months ago—that is, at the time of the 1958 elections. When Nelson Rockefeller whipped Averell Harriman in the battle of the millionaires and won the governorship of New York by 557,000 votes, he was hailed as a new vote-getting champ for the Grand Old Party.

Many thought that Governor Rockefeller had overnight become a serious threat to Vice President Nixon's ambition to win the presidential nomination in 1960.

No doubt ever existed that the Vice President was a favorite with most Republican professionals—national committeemen and committeewomen, state chairmen and county chairmen. Thanks to his travels about the country and his speechmaking, he knew most of these people and could count on something like 85 per cent of them being in his camp.

The danger was, as some of the Nixon people saw it, that the Gallup Poll and other such polls might show that Governor Rockefeller would have a better chance of winning against the Democratic nominee. They knew that in such a case the delegates to the 1960 convention might easily be stampeded into nominating Governor Rockefeller.

Today the railbirds here feel that this danger is remote. Not only has Governor Rockefeller failed to gain on Vice President Nixon in the Gallup Poll, he has lost ground steadily in spite of widespread praise for the job he has done in Albany, particularly his courage in putting through a program of higher taxes to keep New York out of the red.

But Vice President Nixon has continued to handle himself well, too. He is a smart politician, one who somehow has managed to get along with both conservatives and so-called progressives in the G.O.P. Moreover, he makes the most of his opportunities, and opportunities seem to keep opening up for him.

. . .

This summer, for example, he is scheduled to fly to Moscow to represent the United States at an international fair, and to confer with Premier Nikita Khrushchev and other Kremlin big shots. Also, he may serve as President Eisenhower's stand-in at any summit meeting in case the meeting is prolonged and the Chief Executive has to return to Washington.

It is just possible—although the Nixon people are not counting on it—that Governor Rockefeller may decide not to throw his hat in the ring at all.

Top Democrats believe that Mr. Nixon would make a formidable candidate. Even so, some of them say that they would prefer the Californian over Governor Rockefeller. They think the 1960 campaign might well develop into a personality contest, and they are afraid that Governor Rockefeller might have that something they call "magic"—a quality that leads people to vote primarily for the man, without much thought about party or or issues or ideology.

Front-runner among the Democrats in most polls is, of course, Sen. John F. Kennedy of Massachusetts, who has distinguished himself in war, as a Pulitzer Prize winner in literature and as a vote-getter in politics. The Democratic professionals are well aware that he is in front. Yet few of them are ready to concede that he will win the nomination.

Politicians are for the most part hearty and friendly people who are rarely guilty of religious prejudice. They are realists, though, and many of them are not yet persuaded that a Catholic can be elected President of the United States.

. . .

Senator Kennedy believes that his strongest rival for the Democratic nomination is Senator Stuart Symington of Missouri, a big, good-looking fellow who seems to have support in the North and the South, among conservatives and liberals, and who is expected to have the backing of former President Harry S. Truman. Evidently the young Massachusetts lawmaker is not afraid of Sen. Lyndon B. Johnson of Texas and Sen. Hubert H. Humphrey of Minnesota.

Suppose that this judgment is good and suppose further that neither Senator Kennedy nor Senator Symington can go over the top in the balloting at Los Angeles: What would the delegates do then? To what man would they be likely to turn in order to break the deadlock?

The answer one frequently gets here in Washington is Adlai Stevenson. The twice-defeated Illinois statesman, who has been running almost neck and neck with Senator Kennedy in the Gallup Poll, has said that he is not a candidate and that he will not become a candidate. However, he has not said that he would refuse the nomination.

Former Governor Stevenson had the misfortune to come along when the Republicans opposed him with a war hero, a star-dusted popular idol who turned out to be invincible at the polls. Who could blame the Illinois egghead for wanting a third chance in a year when the hero will be out of it?

Just as some of the Republicans are talking about a Nixon-Rockefeller ticket, so are some of the Democrats talking about a Stevenson-Kennedy ticket. But, as was remarked at the outset, this is a report on just that—the talk here, gossip and speculation that may or may not pan out at Los Angeles and Chicago.

Bob discovers a new kind of safety valve



Bob Steele was happily content, reclining on his spine,

Just lolling to the music of his turbines' whirry whine.

"It's money-making music," Robert smiled. A mighty crash—
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His Travelers man rushed in to find our hero deep in gloom.

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"Fret not," replied his trusty man, "if Lady Luck was mean;

Your total loss is covered under Boiler and Machine."



"We pay the costs to make repairs, to clean up all the mess, Your fixed expenses, normal profits are assured, no less! So while the work progresses, navigate the bounding main." "A marvelous idea," Robert cried, "auf wiedersehen!"



Now Bob is back, his plant intact, his future glad and free; Cash registers and turbines join in cheerful harmony. Why let ill fortune ruffle *you?* See Travelers 'fore it pops— For even *pampered* boilers and machinery blow their tops!



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CAST IRON PIPE

Minimum wage hurts workers

Pay raises not based on productivity close job opportunities for least skilled

A NATION'S BUSINESS
interview with
Dean Lawrence C. Lockley,
University of Southern
California, School
of Commerce

LABOR HURTS ITSELF by pressing for increases in the minimum

That's the opinion of Lawrence C. Lockley, Dean of the School of Commerce of the University of Southern California, who is interviewed this month by the editors of NATION'S BUSINESS.

Dean Lockley takes the position that unrealistic wage pressure by organized labor causes some trades and crafts to price themselves out of the market. He was one of the few witnesses to speak against an increase in the minimum wage when that issue arose recently in California's legislature.

In this interview Dean Lockley explains his reasons for so strongly opposing the minimum wage concept.

In addition, he offers some fresh thinking on other current economic issues, including unemployment, population growth, and competition from foreign producers.

This summer Dean Lockley will leave his post at usc—one he has held since 1951—to become a visiting professor of marketing at Columbia University.

He is the author of numerous articles and books in the field of marketing and is a former manager of the Central Market Research Division of E. I. Du Pont de Nemours & Company, Wilmington, Del.

A privately circulated monthly economic newsletter which he writes during the academic year has four times won for him Freedoms Foundation awards. Here's how Dean Lockley answered questions in an interview at his office on the USC campus in Los Angeles:

Dean Lockley, why do you oppose an increase in the minimum wage?

There are several reasons why I oppose not only an increase but the whole concept of the minimum wage. In the first place, a minimum wage of any size will eliminate the lowest grade of workers.

When they are sifted out because they can't earn a minimum wage, there appears to be no place for them to go.

In the second place, the minimum wage inevitably adds price rigidity and makes it more difficult for management to adjust labor application to the best advantage.

Therefore, labor itself ultimately suffers.

Do you feel that raising the minimum wage now would work a hardship on a great number of workers?

It would work a great hardship. Let's take an example from the field of agriculture. Citrus pickers always work on a piece-rate basis and the average figure, I believe, is \$1.12 an hour.

That figure, however, includes some people who earn only 65 cents an hour and others who earn more than \$1.50 an hour. The average,

DEAN LOCKLEY: "A worker is better off with a higher standard of living that he buys with fewer dollars than with the same standard bought with more"



MINIMUM WAGE HURTS WORKERS continued

then, conceals a wide range of abilities and willingness to work.

What workers do you think would be adversely affected in this country by a higher minimum wage?

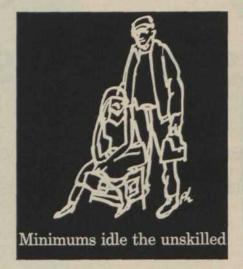
You can start with those workers whose jobs require the least training. You can even point specifically to the food industry to show how wage increases have decreased the number of people employed. We have so mechanized our grocery business that a small number of employes is able to maintain a large volume of retail sales.

Wherever you have work that is not difficult to learn, that is optional, and that consumers can do rather than hire done, you find that an increase in the minimum wage tends to decrease employment. In the barber industry price increases have brought a great increase in home haircutting. The man who has only his own hair to worry about can adjust to price increases. But if he has three or four boys to pay for also, haircuts become a substantial item in his budget.

Or take the painting field. The National Paint, Varnish & Lacquer Association has been making studies year after year of the amount of paint put on the outside and inside of dwellings. We now find that more than half the paint put on the outside of dwellings and about three quarters of the amount put on furniture and walls inside the house is put on by other than hired painters. The rates for painting have gone up so much that people are doing their own painting.

Application of paint has shifted from the field to the factory where a great deal of prefabricated work is

In fact, the painters' union has changed from a craft to an indus-



trial union to compensate for that change.

Are minimum wages ever justified?

Any wage increases that come without compensating increases in productivity simply add to our inflationary tendencies. Any wage minimums are a great mistake from the standpoint of labor and the con-

It is easy to say that the average wage paid in a particular community for certain kinds of manufacturing will be \$2 an hour, or roughly \$80 a week, plus overtime. But that represents an average wage. Some are making less and others are making more. If you cut off the lower group, they are without employ-ment. If, on the other hand, you force their wage up, you have necessitated a total realignment of the wage structure within a particular trade.

Is there too much thrust behind wage demands at this time?

There's no doubt of that. For a good while it was said that wage in-



creases were merely a way of letting labor catch up with the accumulated gains in productivity; but, as you look over the past several years, it becomes apparent that wage increases have fed directly into price increases and into our trend in inflation. A worker is better off with a higher standard of living that he buys with fewer dollars than with the same standard bought with more dollars.

This sounds almost self-evident. Yet there is a great deal of contention over that point before congressional committees. Many people feel that surely, if workers get more money, it must do them more good. It doesn't necessarily do them more good.

Would the same view hold for escalator clauses?

There is no way of adjusting wages to a rising cost of living without adding directly to inflation. Prices go up because there is more money than there are goods and services. Adding to wages at that point means still more money with-





out a compensating increase in the volume of goods and services. This simply makes more money on top of more money and causes a direct and immediate increase in the price level. People who get the escalator clauses are not benefited unless they are a small part of the labor force.

Millions of people who do not get them suffer because others do get them?

That's right. It's a way of bringing about a redistribution of income not based on productivity.

One of our present troubles is that a great deal of the work being done is done toward our national defense. This is necessary and I am glad we are doing it, but it causes some grave economic problems. It generates a large volume of purchasing power that flows into the market but does not generate consumer goods.

Is this imbalance serious?

It's serious and it tends to perpetuate itself. It's a built-in problem to which we will have difficulty adjusting, because the adjustment requires self-restraint by millions of people. That imposes an almost impossible educational job.

Would you care to comment on the current issue of wages in the steel industry?

If an increase in wages in the steel industry forces the price of steel up, we will have one more increase in the rate of our inflationary rise. If we can show that increases of productivity call for wage increases, then the wage increases are clearly justified and are to be welcomed.

The steady upward movement of wages has brought a steady decrease in employment per unit of output for American industry. You may remember that, after the strike in the automobile industry, many jobs that the strikers left never reappeared. They were filled by an increase in mechanization. There is a limit to how far manufacturers and competition can go in raising prices. To keep prices within that limit they must resort to more mechanization. In the long run, mechanization is going to improve our standard of living. In the short run, it's going to bring a great degree of readjustment and worker displacement.

Do we face a danger of too rapid mechanization as a result of wage pressure?

I think we do. I think we face more rapid mechanization than we can adjust to by the expansion of industry. Technically you would expect any mechanization to free workers for jobs produced by industrial expansion. If too many people are freed at one time, industry doesn't expand fast enough to mop up that little pocket of unemployment. If we develop, as we are now doing, little pockets of unemployment throughout the country, we are going to have a rather high degree of distress until expanding industry has soaked up those pockets of unemployment one by one. If this process were done more gradually, jobs would emerge about as rapidly as mechanization made people available. At least it has worked that way in the past.

Is this a major reason why we still have relatively high unemployment?

There are two reasons. The other is population growth. With that increase and the freeing of more people through industrial mechanization, we have a double source of unemployment. This population increase appears to be world-wide and difficult to explain.

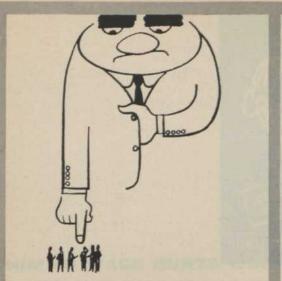
Does the continued rapid increase in population here and abroad pose any serious problems?

Yes. In the past we have waged, at least in the undeveloped countries, a constant battle trying to produce sources of food and fiber fast enough to feed and clothe people. With a sharp increase in the rate of population growth, even with our current techniques, a large part of the world's population is outrunning our sources of provision for it.

And you say that the rate of increase puzzles you?

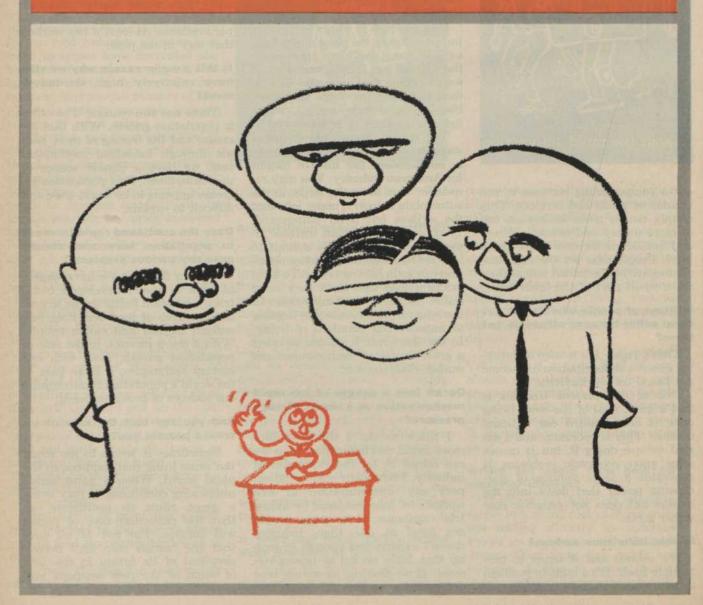
Sometimes it seems to me much the same thing that happens in the plant world. When a plant meets unfavoring conditions, it may make a great effort to proliferate, so that the particular race of plants will survive. I'm not at all sure that the human race isn't deeply skeptical of its future in the face of some of the new weapons and

(continued on page 70)





The autocrat is a Caesar-type leader, the bureaucrat a leader who worships efficiency. The democrat looks to the group for support



WHEN DEMOCRACY IN MANAGEMENT EXCELS

Complexity of business increases the use of group decisions

MANY PEOPLE BELIEVE that business management should move toward greater democracy. Some even insist that this is inevitable because large and complex organizations have made obsolete the thunderous commands of the captain of industry. He no longer can depend upon himself but needs the counsel of experts.

Since democracy is frequently associated with the idea of direct participation by all concerned, this dependence on the group as an adjunct to management is frequently interpreted as a trend toward more democracy in this field. This view overlooks the fact that democracy may be, and often is, a state of mind. If we do not clarify our thinking on the exact nature of democracy, it is probable that its merits will not be adequately discussed, practiced or assessed.

In the interests of a fair trial, then, it is worth while to consider what democracy is, what makes a democratic executive, how he works, and what advantages or disadvantages come to him from working this way.

Sometimes democracy is used to mean the absence of authority, forgetting that this is the way some also define anarchy. Often it is confused with a republican form of government, or with participation by everybody. Such direct participation is not always free from the arbitrary effects of majority opinion—a paradox known as autocratic democracy.

In business, the word "democracy" is used in the political sense. It is not always well appreciated that business is not a representative institution as is our government. Rather it is autocratic and power-oriented. Leaders are appointed from above, not elected from below, and participation has been historically accepted for purposes of collective achievement, not

for representation. The democratic way of life is expressed most clearly in a specific type of personality. In a general way, that type of personality shows a high degree of flexibility in attitudes, feelings, ideas and actions.

This personality is able and willing to understand other personalities as unique, to cooperate and to construct a way of life on the basis of free exchange of ideas and experiences with others.

The democratic person is inclined to conceive of an equality in human relationships, rather than the traditional autocratic conception. Ideally, he is free of bias and prejudice, liberal in his thinking and tolerant of ambiguous problems and situations.

All of these traits bear upon his general tendency to be individualized in his reactions to others and well equipped to use subtle personality cues.

The democrat sees the world either as one grand hospital with each person assuming the role of a humane nurse, or as one big potentially happy family, with himself as an enlightened, responsible parent. At his worst, he tends to dominate and smother his charges in spite of his sincere intentions to help them achieve individuality. At his best he represents that type of organization that is open, flexible, and values highly the brotherhood ideal.

By comparing the executive whose drives tend to reflect democratic behavior with what we know about his two chief peers today—the autocrat and the bureaucrat—we shall be better able to understand his role and problems. A NATION'S BUSINESS article, "Business Needs Mature Autocrats" in September 1958, noted that the autocrat attempts to make himself a key to all group (continued on page 44)

LAWMAKER TELLS:

How your congressman becomes a spendthrift

Here's story of pro-spending pressures and ways to ease them to save tax dollars

BY REPRESENTATIVE CHARLES E. BENNETT

Members of Congress are in a constant struggle to keep from becoming spendthrifts.

The congressman who strives for federal economy today is frustrated by a combination of loose fiscal practices and the ironic pro-spending attitudes of much of the public.

I've watched this phenomenon over the 10 years I have served in the U. S. House of Representatives. It has now reached alarmingly expensive proportions.

Though the cards seem stacked against saving and for government spending, this could be corrected. Congress and our citizens could adopt a three-part program which, I believe, would give new vitality to the quest for thrift and save billions of the taxpayers' dollars. The program would strike at both the attitudes and the machinery that favor excessive federal spending.

Unless we plan some action now, ever mounting costs of government could create further inflationary deficits, dilute our purchasing power, stunt our economic growth, and threaten our national strength and security.

Our troubles seem to be rooted, first of all, in public feelings about spending. Most people are for economy generally, but not specifically.

I remember well the tone of the mail that poured into my office a few summers ago when desire for government economy was being fervently expressed. The letterwriters urged me in no uncertain terms to "cut the fat out of that outrageously high budget," and "keep that federal spending to a bare minimum." At about the same time, the House was considering a multimillion-dollar measure I felt was unnecessary in spite of its popular appeal. Following my convictions, I voted against the bill.

In the weeks that followed you would have thought I was the most penny-pinching man alive. Scores of letters criticized my vote and not a single one recognized my action as a vote for economy.

This is not unusual in Congress, I have talked with many fellow law-makers who tell of constituents who ask in the same breath for tax cuts and larger appropriations for their special projects.

Since each member of Congress must not only vote his own convictions but also be mindful of his constituents, he must weigh carefully any proposal that could benefit them. Even if a measure only appears to benefit his constituents, a member is under great pressure to support the idea. If the legislator fails to vote with his constituents, he can be replaced with someone who does take their views.

This leads to a system of survival of the spendingest. So the primary source of economy must be the public

However, in the eyes of a large segment of the public, progress has become synonymous with more and larger federal programs and benefits. Each new program is excitingly and attractively presented. In the dazzle, the ultimate cost to people in taxes is obscured.

It is now taken for granted that the federal government should be involved in such personal or local matters as health, education and welfare. These words are powerful symbols. The programs under these general labels could become more costly than our national defense. In the broadest sense, "welfare" could even mean two Cadillacs in every garage—at taxpayer expense.

Another problem is that once a program is begun, it is nourished



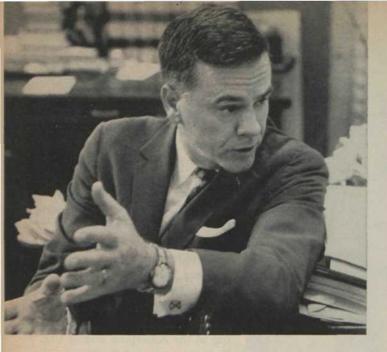
66... constituents ask in the same breath for tax cuts and larger appropriations,



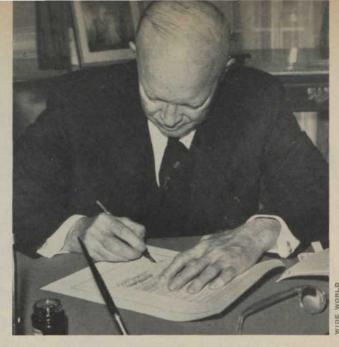
REP. CHARLES E. BENNETT, the author, is a Jacksonville, Fla., Democrat, who has run unopposed for re-election in four consecutive elections. He has missed no record votes in the House of Representatives since 1951. He has cosponsored measures to carry out Hoover Commission recommendations for economy and closer congressional control over spending.

Since he entered Congress, he has received Freedoms Foundation awards two years for "outstanding achievement in bringing about a better understanding of the American way of life." He is a member of the House Armed Services Committee. In World War II, he led 1,000 guerrillas in Northern Luzon mountain and jungle fighting. He won the Silver Star and Bronze Star in the course of more than five years of military service. He is a lawyer by profession.

Thrift advocate
Bennett quotes
colleague:
"Nobody gets a
statue for
economizing"



Rep. Bennett: "We don't want a survival of the spendingest...welfare programs could become more costly than national defense"



Untold amounts in taxpayers' money could be saved, Rep. Bennett says, if President were given item veto on appropriations

until it is thriving. To end a going federal program is almost unthinkable, even though it may have become obsolete or undesirable.

I can recall only two federal programs that have been abolished since I was first elected to Congress: Uncle Sam no longer stables stallions for breeding cavalry horses, and is now out of the rum-distilling business in the Virgin Islands.

Lobbies now exist for every conceivable spending cause. The appeal to Congress for dollar support is seldom based on self-interest, though. The selling pitch is usually couched in terms of the benefits of a program to national security, human welfare or economic growth.

Sometimes a member of Congress commits himself to a noble idea or project without realizing its potential cost in tax money. Once committed, it's difficult to wiggle off the hook. When I first came to Congress, I enthusiastically introduced a measure to permit tax deductions for certain types of employe compensation incentive plans. I was stunned to learn from the Treasury Department that the bill would cost an estimated \$1 billion in tax revenue the first year and ultimately could cut U. S. revenues an estimated \$8 billion a year. I dropped the idea as quickly as I could.

Unfortunately, the public memory is dim on heroes of economy battles, but people never forget a vote against their favorite cause. As one of my colleagues lamented at lunch the other day:

"Nobody ever gets a statue built for economizing. You don't even make a footnote in the history books."

The other major obstruction to economy in government today is the loose and clumsy system we use to pay for what we buy.

We are now spending about \$80 billion without the best means for resolving competing needs, judging over-all cost or knowing how much money we will have with which to pay our bills.

One problem is that we act on federal spending in piecemeal fashion.

When an appropriation bill or other legislation comes up for action, my colleagues and I don't know whether voting for the measure will eventually unbalance the budget or not. We don't know how much will be spent for other programs still to be voted on or how the economic impact of other spending will affect revenues.

Another problem is that money matters are influenced by more than a dozen committees in each chamber of Congress, so central control is lacking. The major committees assigned to fiscal subjects are the House Ways and Means, House Appropriations, Senate Finance, Senate Appropriations, Joint Economic Committee and Joint Com-

mittee on Internal Revenue Taxation. But other committees get in the act in a variety of ways.

Federal spending normally must be approved by the Senate and House Appropriations Committees. Legislative committees authorize programs, then the Appropriations Committees each year grant the federal agencies the money to run them.

However, a sort of budgetary sleight of hand has come into practice by which the Treasury can be dipped into without the usual controls.

One of the most popular of these fiscal tricks is called "authority to spend from public debt receipts." With this device, Congress lets a federal agency borrow directly from the U.S. Treasury rather than making it rely on congressional appropriations. It has become a popular method to finance the many federal lending programs and dodge annual Appropriations Committee review. Already Congress has authorized agencies to spend about \$150 billion by this method. Housing programs, farm price supports and Export-Import Bank lending, for instance, are financed this way.

Other doors to the Treasury go by the names of "contract authority," under which obligations can be incurred before appropriations are made; "revolving funds," which fi-

(continued on page 94)

KEY TO more dynamic selling

Proper adjustment of salesmen's pay will bring success in coming decade

SALES INCENTIVE PLANS which proved inadequate during the 1957-58 business downturn can have even more serious consequences now that good times have returned.

In today's constantly shifting and highly competitive markets, sales pay programs must be designed to produce the strong incentives required for better planned and more dynamic selling.

The need for holding sales expenses to a minimum is greater than ever before. Especially under today's conditions, incentive plans must motivate salespeople to more profitable selling as well as greater volume.

Unfortunately, there is no ideal plan to fit every situation. Sales incentives must be individually tailored to each company's particular needs.

But certain basic factors are essential to the solution of any incentive pay problem. These factors include:

- ► A knowledge of how faulty plans can kill profits.
- ▶ Determining whether the present plan is right.
- ▶ A procedure for designing a new plan.

Before any of these steps is taken, it is necessary to understand just what a sales incentive is. It is just what the name implies—a way to get people to do a little more than they would otherwise do. Their primary purpose is not to reward people for things already done. Monetary incentives should not be needed to get salespeople to perform their regular duties. This is the responsibility of sales supervision. Incentives should come into play when salesmen have a choice—when a man says to himself:

"Should I help this poor customer

straighten out his inventory or call on a new prospect?"

"It's 4:30 p.m.; shall I make one more call or go home?"

"This customer is impossible; shall I let her go?"

In all these cases the decision is up to the individual because no one else will know that there is such a choice. In such situations a good incentive plan earns its keep.

Faults to look for

Incentive systems must function equally well in rising or declining markets; they must be adaptable enough to allow for quick changes in selling strategy and rapid deployment of manpower without creating inequities in sales incomes. Under all conditions, they must produce a dollar's worth of selling strength for every dollar of cost.

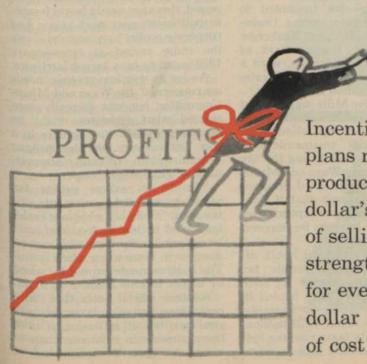
Plans which have drifted off the beam kill profits in an infinite number of ways. Among them:

Selling costs. The incentive portion in most pay plans today constitutes between 10 and 20 per cent of what the company spends on sales compensation. In badly designed plans, these expenditures do not create corresponding increases in selling strength. They result in excessive incomes for some salesmen who are not producing accordingly.

In one company, manufacturing highly competitive housewares, administration of sales incentive pay had grown so lax that merit ratings for individual sales achievement no longer had any meaning. One day a salesman who had just been dismissed for incompetence stormed into the president's office calling for an explanation.

"Will you please explain why I am being fired," he demanded, "when you hand me something like

He waved his final pay check (continued on page 51)



Incentive
plans must
produce a
dollar's worth
of selling
strength
for every
dollar

Where taxes go from

Increased revenue needs may bring revaluation of system

THE BUSINESSMAN today has good reason to be confused over the federal tax outlook.

He knows that international tensions could erupt into war at any time with consequent huge revenue demands. He sees federal spending soaring past tax receipts, leaving a shortage of billions of dollars. And yet he continues to hear of more and larger federal spending ideas and little action to cut expenditures.

Whether taxes will go up, and when and how, must be answered, however, in the light of political, historic and economic factors.

In recent months abundant clues support the prospect of higher levies. On the other hand, the chairman of the tax-writing House Ways and Means Committee, Rep. Wilbur D. Mills (D.-Ark.), has announced plans for fall hearings aimed at "significant reductions" in individual and corporate tax rates.

President Eisenhower early this year asked Congress for higher taxes on gasoline, diesel and jet fuels, life insurance companies and certain mining outfits as well as another extension of high corporate and excise tax rates.

Such highly placed Administration officials as Treasury Secretary Robert Anderson and Budget Director Maurice Stans have hinted that more general tax increases may be necessary if Congress refuses to help balance the budget and the deficit swells substantially.

Congress already has acted on part of the Administration proposals. It has written a new formula which draws about \$200 million more in federal taxes from life insurance companies.

Independently, it has also passed a bill to increase railroad unemployment and retirement benefits. costing railroads about \$120 million more the first year and more than \$200 million in later years.

Scattered voices in Congress are calling for more increased taxes and less differential tax treatment to meet rising federal spending. Democratic Senators Richard Neuberger of Oregon and Joseph Clark of Pennsylvania, for example, want a number of changes that would raise from \$4 to \$7 billion in revenues.

Representative Mills suggests that a revamping of our tax system might be accomplished by eliminating most differential treatments and benefits and by broadening the tax base. Top-ranking Ways and Means Republican, Rep. Richard Simpson of Pennsylvania, says that if Congress permits excessive expenditures new taxes will have to be imposed to raise the money.

On the state and local levels, officials are scouring possible tax sources for new revenue as state spending has more than tripled in 10 years. New York, for example, raised taxes by about \$270 million. As state and city taxes rise, the federal take is lowered because state and local levies paid are deductible on federal tax returns.

Some economists and private groups have urged higher taxes rather than an unbalanced budget.

In neighboring Canada this spring, rates on personal and corporation income, liquor and cigarets were raised as was that country's sales tax.

As if this weren't enough, the businessman might be reminded of these added elements: This is not an election year, so if taxes are to be raised, this year would be preferable to politicians over next year. And corporate profits have zoomed above the same period of recessionary 1958 so as to be a target for levies.

As far as wartime revenue needs are concerned, the Ways and Means Committee has not formally considered what measures might be necessary to jack up revenues in a war. Tax advisers and high-ranking Administration officials, however, suggest what might happen.

"Surely an excess profits tax would be enacted," comments one tax man. "Probably a national sales tax would be levied, too. You can't be squeamish about possible regressiveness in taxes when a war is on. The balance needed could be raised by higher income taxes.

Another official notes that "in a major war, you raise taxes any way you can, but it is easier to raise taxes already in existence than to create new ones. You might look at

what was reduced in the Revenue Act of 1954 and revert to these taxes." Under the 1954 Act, income taxes were cut by about 10 per cent, the Korean War excess profits tax was eliminated and the dividend credit for stockholders was granted.

A glance back into history for perspective shows when and how U. S. taxes have been raised. Usually it has happened under the reve-

nue strain of war.

Few taxes were levied in the nation's early years. Before the Civil War, the federal government got most of its money from customs receipts. The first excise was levied in 1791—a tax on whisky to help pay for state debts that were assumed by the national government.

The War of 1812 cut customs receipts and forced a return to excise charges which had been abolished earlier. Congress did away with all internal revenue taxes in 1817 and the nation weathered the Mexican and Indian Wars without getting into too much fiscal trouble.

However, when Fort Sumter was fired on, igniting the Civil War, the money supply was low. The Treasury was about bare as a result of low receipts in the Panic of 1857.

With war, the Union enacted a series of revenue laws, among them the country's first income tax, levies on trades, vocations and occupations, taxes on cattle and cotton and levies on bank surpluses, railroad bond interest, advertisements, medicine and cosmetics. An inheritance tax also was enacted.

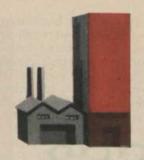
Another income tax on individuals and corporations was passed in 1894, after the Panic of 1893 left closed factories, defunct banks, unemployed workers and a depleted Treasury. But the Supreme Court in 1895 said the income tax was unconstitutional because it was a direct tax not apportioned as the Constitution required.

Excise taxes and customs supported the government for the next several years. Increased excise taxes, stamp taxes and special taxes on banks, brokers, theaters and pool rooms helped pay for the Spanish-

American War.

The adoption of the Sixteenth Amendment to the Constitution gave Congress the power to collect income taxes from any source and

(continued on page 74)



Corporation tax rates will stay at same high level for 1959-60



Individual income taxes will be cut if tax system is revamped



State and local levies will rise and put pressure on federal tax sources

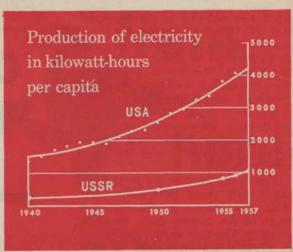


Big federal spending outraces tax revenues. creating potential fiscal crisis

An authoritative report by the staff of the

HOW'S BUSINESS?

today's outlook



SOURCE: "PUBLIC UTILITIES FORTNIGHTLY

AGRICULTURE

In the face of heavy production of U. S. farm products, market demand is expanding. The principal reasons are continued economic recovery at home and abroad and a growing population.

On the domestic side, consumer incomes are rising and the demand for food will increase further during the rest of 1959, according to U. S. Department of Agriculture estimates.

The gain in population is likely to surpass the expected slight increase in supplies of beef and dairy products. Heavier marketings of hogs, broilers, and eggs have stepped up consumption, but at prices somewhat lower than last year. Department officials foresee continued strong demand for cotton, fruits and tobacco. Expanding livestock numbers may help to minimize the carryover problem in feed grain stocks in the coming year.

The export outlook also appears brighter for the last half of 1959, compared to a year earlier. Foreign purchases of U. S. cotton are being delayed until Aug. 1, after which it will be priced competitively on the world market. Smaller crops and more livestock in several countries have resulted in larger exports of feed grains.

CONSTRUCTION

The construction industry may provide jobs for 4.75 million men by 1970. Employment in the industry now totals more than 2.5 million.

A recent survey by Allied Chemical Company's Barrett Division indicates that approximately 66,000 jobs are now created by every \$1 billion spent for construction. Estimates are that the United States will be spending \$75 billion on construction by 1970 but improved methods may reduce manpower requirements somewhat.

For the past four years expenditures for construction have been running approximately 11 per cent of the gross national product. During 1959, spending for new construction is expected to rise to an all-time record of \$52.3 billion.

At present each \$1 billion spent on home-building is divided as follows: 42 per cent for lumber, shingles, carpentry and millwork; four per cent for electric wiring, labor and supplies; 22 per cent for masonry, labor and materials; eight per cent for plastering, gypsum wall board or painting; 15 per cent for plumbing and heating, labor and materials; five per cent for steel and hardware supplies; and four per cent for miscellaneous items.

CREDIT & FINANCE

Industrial activity is moving at a fast clip. Indeed, 1959 may be the best year ever for business.

The corporate earnings outlook continues good with profit levels up somewhat over 1958. A compilation by the First National City Bank of New York shows net income of 798 leading companies in the first 1959 quarter was \$3 billion, or 46 per cent above the like period last year.

DISTRIBUTION

Over-all sales figures in the distributive trades show that consumers are in a buying mood. U. S. Commerce Department data on personal spending also bear this out.

The Bureau of the Census reports that first-quarter sales of merchant wholesalers, just under \$30 billion, were 12 per cent above the like period last year.

First-quarter retail sales of more than \$48 billion were the best on record for that period.

Durable goods volume has picked up sharply since early spring—with emphasis on major household goods, lumber and building materials, hardware and farm equipment.

Auto dealers are confident that sales, well ahead of year-ago slump figures, will remain out front for the rest of 1959.

Nondurable goods sales continue to exceed year-earlier levels.

A cautious inventory build-up in both hard and soft goods at distribution levels is reported by the Bureau of the Census and the Federal Reserve Board.

FOREIGN TRADE

Many United States business firms have indicated that they have specific plans for expanding their

Chamber of Commerce of the United States

foreign business before the end of next year. The Department of Commerce reports: "Our business community has the capacity and willingness to lead in the industrial development of those countries whose economic improvement is essential to world peace and progress.

This view is somewhat tempered by the fact that U. S. new direct investments abroad in 1958 dropped by \$1 billion from 1957. Net capital outflows through direct investments to Canada, South America and Europe were moderately lower; those to Asia and Africa slightly higher. Both the direction and composition of investment must shift if the economic improvement of those less-developed areas most in need of assistance is to be achieved.

Current book values total around \$27 billion, including estimated reinvested earnings.

GOVERNMENT SPENDING

This month winds up fiscal 1959—and with it will be recorded the largest federal deficit in recent years. Despite the Administration's efforts to keep current spending down, the deficit probably will be between \$13 and \$14 billion.

Current facts indicate that, despite the general increase in spending which Congress is expected to authorize, a balanced budget still may be possible in the next fiscal year. Revenues will run above the \$77.1 billion estimated by the President in January. Corporate profits are much higher than anticipated and are the primary cause of the brighter budget picture.

Congressional action on appropriation measures is expected to progress rapidly during June in an effort to have funds available for federal operations by July 1, when the new fiscal year begins. The Defense and Mutual Security bills may lag, but most others are expected to make the deadline.

Although Congress may appropriate somewhat less this session than the President requested, actual spending authorizations accomplished by the use of backdoor techniques are expected to be higher.

LABOR

The nation's capital, never partic-

ularly renowned for its cool summers, is likely to experience a different kind of heat this month when the Kennedy-Ervin labor reform bill (S. 1555) reaches the House floor.

Although the Senate cleared the Kennedy proposal by a lopsided 90 to one vote, its journey through the House is expected to be stormy. Many congressmen regard the bill's approach to the problems of picketing and secondary boycotts as timid and inadequate.

A number of congressmen have also expressed concern about the way the proposal would deal with the jurisdictional no-man's-land problem. They believe that the states should have full authority to act and apply state law (not in conflict with federal law) in cases which technically fall within the coverage of National Labor Relations Act but do not meet the jurisdictional standards of the National Labor Relations Board.

A bill of rights similar to Senator McClellan's original proposal designed to assure union members democratic procedures in internal union affairs is also likely to engender a lively floor fight.

NATURAL RESOURCES

Outlook for electric power development in the United States over the next ten years sets at rest fears that we are falling behind Soviet programs.

Electric utility officials who have toured major Soviet installations report significant progress in electric power development. But our own rate of growth and advancing technology show a far greater annual gain than the Russian's.

J. E. Corette, retiring president of Edison Electric Institute and president of the Montana Power Company, says our future progress can be reliably forecast. He not only outlines the U. S. power needs for 1968 in detail, but also predicts that they will be met.

Private enterprise progress such as this will be hard for Russian totalitarianism to match:

Generating capacity in 1968 will double present 290 million kilowatts.

Twenty-five per cent more customers will make a total of 70 million by 1968.

Capital investment will rise 115

per cent, from \$40 billion to \$86 billion

Under present tax rates, our electric industry will be paying nearly \$5 billion annually by 1958.

TAXATION

Now that the State, Commerce and Treasury Departments have given their support, it appears that American business will be granted a measure of tax relief as encouragement to invest in the underdeveloped areas of the free world.

The blessing is limited to, 1, tax deferral for foreign corporations which derive substantially all of their income from underdeveloped areas, 2, ordinary loss treatment for losses incurred by investors in these corporations, and, 3, tax sparing where the host nation offers special inducements.

Even so, this represents a significant departure from earlier Treasury positions and is designed specifically to implement our counteroffensive to Russian economic aggression.

Representative Hale Boggs (D.-La.), author of the much broader H. R. 5, has welcomed this official support and expressed his belief that, with this breakthrough, the House and Senate will give prompt attention to his bill.

TRANSPORTATION

The Military Air Transport Service has asked Congress for funds to buy 10 jet transport airplanes in the fiscal year beginning July 1, 1959.

Such an acquisition of jet equipment would represent a substantial expansion of MATS' airlift capacity. A manufacturer estimates that one new jet is the equivalent of three to four four-engine planes in airlift capability. Thus, the 10 jets represent an airlift potential equal to 30 or 40 multiengine planes.

It is unclear whether the proposed acquisition contemplates retirement of an equivalent number of the older aircraft, or whether this means that MATS will merely expand its air transport activities further.

Commercial carriers who would relish the opportunity to perform the bulk of this airlift for the military are waiting to see what Congress will do.

DEMOCRACY

continued from page 35

action and eventually to become indispensable. He expresses a need to dominate by keeping the group acting as individuals and on a personal basis with him.

Because he becomes and remains the focus of attention, he believes in becoming a well developed generalist capable of coping with diverse problems and situations. His whole life is given to developing himself to completeness.

Knowing these underpinnings of the autocrat, we are able to anticipate how the democrat behaves. He attempts to knit the group into a harmonious team so that the ensuing cohesion disguises who actually is running things. Rather than making himself indispensable, his primary aim is to develop subordinates so that he becomes relatively superfluous. He seeks thereby to involve every member in determining group activities and objectives. Instead of developing in himself a complete competency, he is more interested in developing that complete competency in the group as a whole.

The autocrat recognizes the superiority of the individual over the group, whereas the democrat recognizes the superiority of the group over himself.

The article, "How Managers Become Bureaucrats," in Nation's Business for February 1959, noted that the bureaucrat does not recognize the individual or the group as much as the organization. A systembuilder, he places his faith in the ultimate perfectibility of that system. The highly creative and spontaneous individual is an anathema to him because of his essential unpredictability.

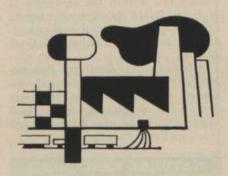
Whereas the autocrat is usually a man of action who places productivity above all things, and the bureaucrat worships efficiency, the democrat elevates participation. In practice this means open communication, group problem-solving and decision-making—all of which take considerable time and deliberation. The democratic process works slower than the lively autocratic type, but is without the impersonality of the bureaucracy.

In short, the democrat attempts to live in a supremely direct and human world without the spirit of manipulation and instrumentality that many individuals often have toward people.

We have noted that both the autocrat and the democrat are more involved today in participation networks. We may ask if this trend is because of the prevalence of autocrats who necessarily have to, or the increased number of democrats who idealistically want to. To be sure, business today is large and complex and conduces more than before the democrat's spirit of mutuality, but size and complexity restrict the democrat as much as the autocrat. Participation and size have always made it difficult for each other.

Deeper insight into why the democrat elevates participation shows that he believes more in social forces or processes. This means that the democrat would not typically say that a catastrophe such as a depression or war is caused by an incompetent chief executive or a malevolent despot. Rather he would see a broad panorama of circumstances as responsible and necessary to be considered in any formula for resolving or averting a similar tragedy.

The democrat tends not to personalize the issues and events, but



rather to see problems as being truly complex, social and situational in nature, and beyond the responsibility of one man, regardless of how wise or errant he might be.

This suggests that the democratic executive manifests a strong tendency to suspend action until after due deliberation.

Contrariwise, the autocrat's desire for personal thrust, his fear of ambiguity, and his strong sense of personal competency prescribe that his approach to problems is more restricted to the use of his own personal skills, and places emphasis too soon on solving them.

In practice a democrat will usually develop a broader and more encompassing approach to problems so that he must have help with them. It is not simply that others are more included in the democrat's kind of problem than in the autocrat's, although this is true, nor that he simply wants participation because of his belief in representation, although this is also true. It is these plus the fact that he sees problems

in a light that places a great premium on group deliberation.

In this sense the democratic executive is against the Great Man not only because he may take unfair advantage of his unequal power, but also because he fears that one individual operating alone cannot arrive at adequate descriptions of, or decisions to, problems that he feels are beyond any one individual's ability either to manage or to comprehend.

In this respect the democrat and bureaucrat may appear similar, except the latter is impatient with this ambiguous complexity and must reduce it to a rational system of impersonal rules and formulas. The bureaucrat's fear of complexity is matched only by the autocrat's drive for concreteness and simplicity, all of which makes the democrat's deliberativeness a balancing influence.

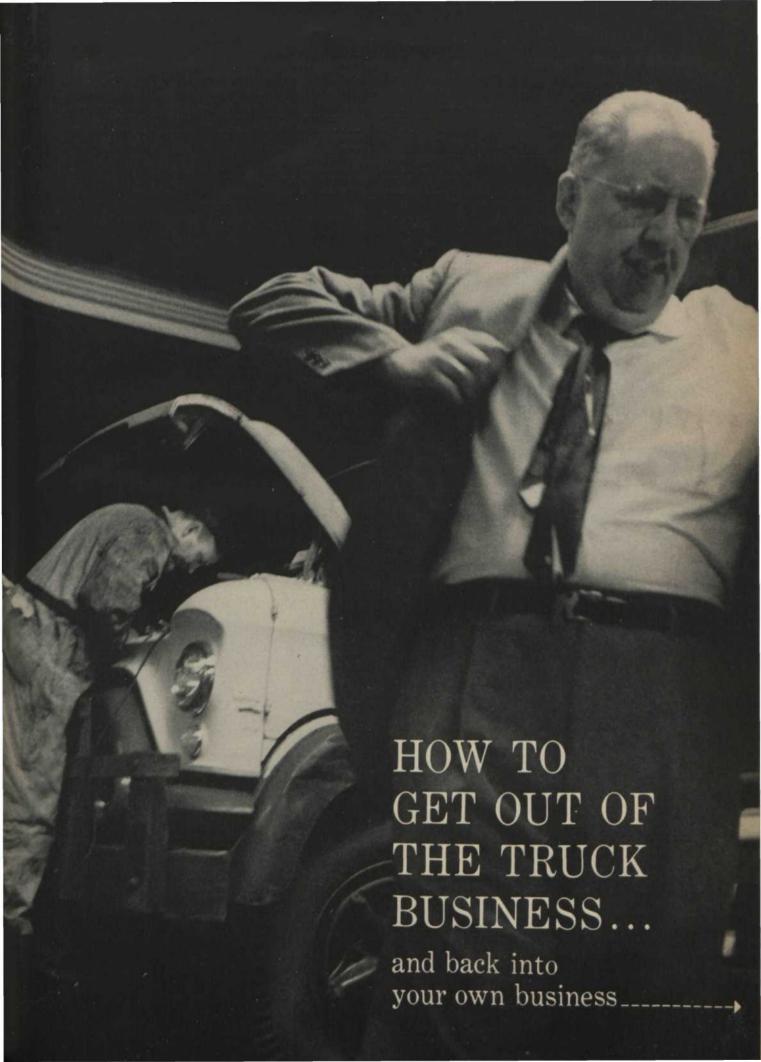
However, because the business environment demands action, the democrat cannot cling satisfactorily to group deliberation, nor can he be as personally deliberative as he thinks the problems he is tackling call for. The democrat feels frustrated in an action-oriented climate to the extent that he does not learn to cope effectively with these two conflicting requirements. If he wants to succeed he is forced to acquire some of the autocrat's ways. He must become decisive.

The outward behavior of the decisive democrat and the mature autocrat are often practically indistinguishable.

Yet they are entirely different inwardly. These inward differences manifest themselves now and then and can never be completely hidden. For example, sometimes the mature autocrat, who has supposedly learned to control his need to dominate, and to accept and even seek out thoughtful and deliberative participation, may turn to his real self in a crisis and plow ahead, meeting the situation head-on without appreciation for what others might contribute. At this point he has been known to undo any of his previous efforts at being democratic.

In a crisis, the decisive democrat who has tried hard to operate alone may turn to his real self, call his group together and refuse to act on a crucial problem until everyone has had an opportunity to express himself and a fundamental position has been evolved from which he can deal with confidence.

This means that the democrat may not have as good timing. His (continued on page 49)



ease Hertz Trucks and reduce fleet problems to the writing of one budgetable check



maintenance per week



Take a close look at this picture. It shows the typical requirements of a five-truck fleet: the trucks, which tie down a sizable capital investment and the personnel and equipment needed for maintenance, dispatching and bookkeeping. Not shown, but very real, is the high cost of depreciation. This is the terrific attrition the average company pays for truck fleet ownership. These are the problems that are solved by Hertz leased trucks.

Now look at the dramatic change that the switchover to Hertz truck leasing can bring about. The company receives one complete itemized statement each week, writes one budgetable check. The old trucks will have been purchased by Hertz at a fair market price, the released capital profitably reinvested. The people's time will be devoted to other, more productive work within the company.



This kind of success story happens again and again, when companies switch to Hertz truck leasing. Only Hertz can give you the *full benefit* of leasing advantages, because Hertz is the oldest, largest and most experienced truck lessor... with more offices and garages strategically located throughout the U.S. and Canada. Trucks are supplied to you faster, serviced faster by crack night crews and ready to roll each morning. Should the unforeseen put your regular Hertz leased truck out of action, Hertz has replacement trucks ready to serve you immediately, at no extra cost, to keep your deliveries rolling. That's why you're way ahead to lease from Hertz... America's No. 1 truck lessor.

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DEMOCRACY

continued

decision tends to lag behind the events to which it is directed. Whereas the autocrat may have to revise later his hasty appraisal of the problem, the democrat has the better support of his colleagues. Because the democrat may have the benefit of a broader appraisal, he naturally has a bigger job of implementation. The autocrat strings his implementation out as he reappraises the problem. His decisions show a cumulative effect whereas the democrat's show a comprehensive effect.

It is often presumed that the democrat's group problem-solving process is qualitatively superior to the autocrat's more individualized version. Some studies at first suggested this. Later studies indicated that this evaluation was premature. The answer apparently hinges on whether specialization of labor may be brought to bear successfully, whether there is a high and fairly equal degree of competency among the group members, whether they have the necessary skills to operate as an effective team, and whether they are all well motivated and attentive.

Evidence indicates that major business problems do not lend themselves neatly to being divided into parts, each to be tackled separately by an executive. Furthermore, competency is seldom equal, owing to the traditional practice of singling out specific and more talented individuals. Making these select few assume inordinate personal responsibility ultimately brings about even more unequal amounts of com-Detency, Then, too, rare is the individual who can feel motivated to give his best when the problem on which his advice is asked is not intimately felt as his own personal responsibility.

The democrat has his work cut out for him. If he is to be successful, he must develop a high degree of competency in his group as a whole and bring to a high pitch group cohesiveness and responsibilty. For this task the democrat needs time and opportunity. But he needs also to restrict the size of this group and to spend prodigious amounts of time helping the members become effective group participants in order to make maximum use of the group problem-solving process.

Naturally, he regrets this overconcentration of his time with a few. If his inner drives to be democratic are too strong, he will feel guilt because he does not have a more open and flexible system in which more people have opportunity to participate directly in problems and decisions that crucially affect them.

Then, too, within the democrat's executive group there is often developed an *esprit de corps* that is so binding that it resists additional members or the replacement of old ones. If the executive does not take steps to prevent this, it is possible that his whole organization will lose its essential integrity, become divided into the "ins" and the "outs." To restore order he may have to subvert the true aims of his character.

A democratic executive may also fail to recognize that the people with whom he must form his executive group are not as democratically predisposed as he is, nor should they necessarily be, since it is debatable whether an effective team can be made up entirely of democrats. Because he cannot expect them to act as effective group members immediately, he must first help them to get experience and understanding as to how to behave, and only gradually let them play fuller roles in problem-solving. Democracy is not easy to learn. There are definite limits as to how far he may go with some members, because often a democratic group is an invitation for the overly ambitious individual to seek and gain power.

The dilemma of the democratic executive is that he can never relax his authority in proportion to the needs of his personality. He finds that his view is simply too idealistic in a world viewed predominately by others as a jungle. Consequently, he is ever mindful that a judicious mixture of authority serves democracy well, prevents anarchy and autocracy.

In counseling with executives, the problem that invariably shows up with the democrat much more than with the autocrat is his greater difficulty of being both himself and successful. Although he is often tempted to resign from his ideal self, he can never do so completely. Within him are profound needs and drives to believe in the superiority of the group. It is not a matter of wanting to, it is a matter of not being psychologically predisposed to do otherwise. It is his way of getting on in the world, deriving meaning and gaining happiness from life.

As the autocrat's arbitrary urges compel him to move out and above the group, the democrat has urges



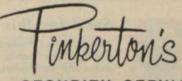
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-reports C. R. Lindquist, manager

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DEMOCRACY

continued

that exert equally arbitrary pressure to reside within the group. The decisive democrat has learned to master this predisposition.

For these and other reasons, it is difficult to say just how many more autocrats there are than democratic executives, since in business many of them have undoubtedly become modified (if they are successful) to meet the requirements as seen from their different perspectives. People closest to this problem are generally inclined to say that autocrats greatly outnumber democrats, but this depends upon the function. Some feel that the democrats gravitate toward certain staff positions more than line; that they are used more on long-range planning programs than on short-run action programs; are more useful as committee chairmen than as members.

Although there is some evidence that democrats are more numerous in the less competitive types of industry or within firms that are more naturally public-oriented, such as public utilities, it is so far only speculation that suggests that as business becomes less competitive the democratic type will become more conspicuously present. The bureaucrat, rather than the democrat, may be the more logical heir to size, complexity, and diminished competition.

Although I have found in studying business executives a surprisingly large number who are basically democratic, I feel more confident in reporting that top business executives are likely to mean by "democratic" an executive who behaves more like the mature autocrat than

one basically democratic.

No doubt this finding was made possible in part because the term "democratic" is confusing to many businessmen and still smacks of political implications to many. For this reason the democratic executive has been described and the need is for more research and study to provide a fuller understanding of democracy in business.

Meanwhile, the democratic executive, being a relatively recent arrival, lives in a world traditionally populated by autocrats who are slowly becoming mesmerized by bureaucracy. Although he finds it necessary to adapt to this world, he can not subscribe to it.

Neither can he forsake it.

—EUGENE E. JENNINGS Michigan State University

DYNAMIC SELLING

continued from page 39

which, besides last month's salary, included a substantial monetary reward for what was designated as "superior performance and sales achievement."

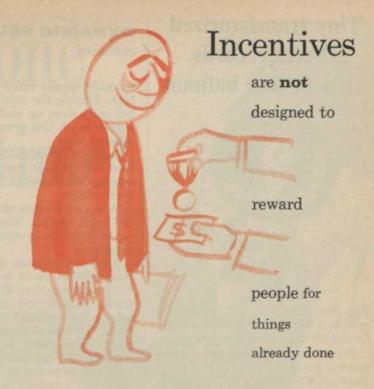
This incident brought things to a head and the company began an investigation that wound up with a complete overhaul of the plan. Performance standards were based on company sales objectives and sales supervisors were trained in rating salesmen accordingly. When sales incentive payments were systematically tied to accurate merit ratings, the cost of the incentive plan was reduced by 60 per cent and its effectiveness vastly increased.

Weakened management effectiveness. Many marketing plans are being blocked at the sales level because the incentive plan motivates salesmen to ignore or resist management directives. For example, salesmen, whose personal incomes depend entirely on volume of sales, tend to resist directives to spend time on such essential nonselling tasks as research and service.

One company selling its products through wholesalers decided to base its selling strategy on a program of merchandising service to customers. Salesmen were brought into the home office and taught how to conduct meetings for wholesaler salesmen, how to assist wholesalers in carrying out advertising programs and how to set up stock control programs for wholesale establishments. Despite all this the new strategy was blocked because the compensation plan pulled salesmen in other directions. The plan based incentive pay primarily on volume of business from new accounts. It did not reward them properly for conducting the customer service program.

As soon as the old plan was replaced by one which rewarded performance of the whole selling job, including customer services, sales success was immediate.

Difficulties in holding talent. Selling jobs today are failing to attract the talent that is needed. Defective sales pay plans which result in individual income inequities, unpredictable changes in pay levels and, in the end, lack of financial security are in part responsible.



One large company had an arrangement which it mysteriously designated a "management discretion plan." At the end of each year, management awarded good-boy bonuses to specially selected salesmen. Those chosen for this award were never told why they got it. They were asked to keep the whole thing a secret. Nevertheless, word of this peculiar bonus arrangement spread through the organization and even reached down to college placement bureaus, there to hamper the company's recruiting program for sales engineers.

Then an incentive plan was adopted in which the pay provisions were openly announced to all the company salesmen at the beginning of the year. Realistic performance standards were set up and sales goals established. News of the company's improved compensation philosophy also got around. Now the firm has no trouble attracting highgrade applicants.

Deterioration of morale. Innumerable sales incentive pay programs discourage initiative and enthusiasm.

For instance, salesmen doing an outstanding job in a sparse territory are constantly overlooked while compatriots who have been loafing along in lucrative territories are promoted or highly rewarded.

Impairment of marketing flexibility. Today's selling organization must be highly maneuverable to keep pace with rapidly shifting consumer demands. Poorly designed incentive compensation can defeat these ends.

For example, a building products company was constantly outmaneuvered by competitors when new sales opportunities developed. The company's sales incentive pay plan was designed to encourage economy. One of its provisions rewarded district managers for maintaining a low ratio of selling expense to sales volume. Consequently, even when local markets were booming, these district managers were reluctant to add sales manpower. More flexible competitors increased selling strength in the booming area and walked away with the volume.

A new sales manager replaced the old incentive plan with a new system designed to encourage the addition of sales manpower when and where it was needed. The company rapidly outdistanced its competitors.

Peaks and dips in volume. Business profits are invariably reduced by exaggerated peaks and dips in sales volume. Personnel and physical facilities are in constant turmoil, overworked one month, idle the next. A good sales incentive plan can be a powerful management tool for achieving a profitable sales balance.

A retail store executive was told to find out why his store's seasonal peaks and dips in sales volume were more exaggerated than those of competitors. His analysis showed that salespeople started earning bonus money in addition to base salary only when their sales exceeded

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DYNAMIC SELLING

continued

monthly quotas which were set too high. During the months when retail sales were up and quotas were within reach this spurred salesmen to work hard.

In slack periods salespeople realized early that it was impossible to achieve their quotas. They relaxed their efforts.

When attainable quotas were set for each month, the exaggerated peaks and dips in store volume disappeared.

Such things come about because the essential tie-in between incentive compensation and sales performance gets lost in a race for sales manpower and volume. Before mid-1957, when salesmen's total incomes were rising in the wake of consistently increasing dollar sales volumes, emphasis in sales pay was on total income. Incentive payments, bonuses, and other income supplements were awarded so regularly that salespeople considered all elements of compensation, regardless of their bases, as permanent total income. Salesmen were not entirely to blame for this faulty con-

Employers had a habit of using the high total incomes of star salesmen as an inducement to attract new talent. Often, the components making up these total incomes were only vaguely explained, or worse yet, represented as virtually guaranteed earnings. Income supplements originally designed to reward superior performance came to be used as rewards for such things as length of service when permanent salary increases could not be justified. As long as over-all sales objectives were being met or exceeded consistently, few executives worried about paying some salespeople a little more than they deserved.

Then in mid-1957, when business slackened, the emphasis on total income boomeranged. Companies found themselves in trouble; they dug themselves out in various ways. One sales manager confessed:

"I was informally committed to maintaining higher sales incomes than my salespeople were actually earning, so I set aside the pay plan, temporarily subsidized the sales force and gambled on a quick recovery."

Stricter types followed their pay plans to the letter with the result that their salesmen suffered drastic income reductions. Their good men went looking for greener pastures

and sales morale in general deteriorated.

Checking the present plan

The detrimental effects of faulty incentive plans are not easy to identify when selling conditions are favorable and profits are rising.

Even where it is recognized that sales incentive compensation plans are out of line with company objectives, executives have a traditional reluctance to tamper with sales pay.

"Fooling around with sales pay is one thing you just don't do," said one. "Salespeople are temperamental. If they seem satisfied with a pay plan, don't touch it."

There is a right way, however, to determine whether a new plan is needed and to design one if it is. When this way is used, and no steps are omitted, sales incentives can be brought into line with little initial resistance and with full cooperation.

The starting point is to review the plan under suspicion. Determine whether or not the present pay plan is sound in its basic principles. Here is a simple design test to determine whether a plan is right. If the answer to any one of the questions below is "yes," your plan should probably be scrapped and replaced.

- 1. Does it ever motivate salespeople to oppose or ignore sales direction?
- 2. Does its over-all cost, including administration, exceed the profit on additional sales volume attributable to the plan?
- 3. Is there any time during a pay period when a sales employe is unable to compute his approximate incentive earnings from data in his own records?
- 4. Does the plan result in individual pay inequities which discourage initiative?
- 5. Was it necessary to make exceptions to the plan, or to alter it temporarily, during the 1957-58 recession?

If the compensation plan now in force passes this test, it may be possible to correct some minor short-comings by adding or deleting a provision or changing an amount. In deciding to alter a plan, however, it should be borne in mind that even minor problems are usually symptomatic of deeper ones, and that makeshift adjustments seldom correct basic defects.

To illustrate, one company's plan was reviewed and judged to be functioning well in all except one situation. It overpaid the Washington,

(continued on page 57)





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DYNAMIC SELLING

continued

D. C., representative, whose sales volume on large government accounts was substantially greater than that of any other salesman. Management amended the plan by adding an arbitrary ceiling on all Incentive earnings to correct this one difficulty. A ceiling on earnings always has a bad psychological effect on salespeople. The amendment corrected one problem, but created a second problem and failed to remove the basic fault. In the case of this particular company, with its wide variation in volume among sales representatives, incentive pay should not have been tied entirely to total dollar sales volume.

Designing a new plan

If the plan up for review fails to pass the five-point design test, replace it. In designing the new one, prepare to do a thorough and workmanlike job. Sound and lasting sales pay plans are not developed hastily and the use of another company's plan or a pet compensation theory is dangerous. Each incentive plan must be designed for one company.

A step-by-step procedure is essential in evolving a new plan:

- 1. List the selling activities which it will be most profitable to encourage: better planning; more calls on new prospects; stepped-up efforts in general; increased attention to customer service.
- 2. Select, in order of importance, those selling activities which will best respond to monetary incentives as opposed to management directives. For example, an inducement to cultivate more new prospects could take effect immediately, whereas additional education and supervision may be necessary before a monetary incentive could be effective in improving sales planning.
- 3. Design the components of the incentive compensation plan to encourage the selling activities selected for emphasis. Decide, at this boint, only how to provide the incentive and what to provide it for; do not decide how much the incentive will be. Here are some of the many methods by which incentive can be provided for a special purpose:

By offering an extra commission on all first orders from accounts—

to increase the number of dealers.

By rewarding salespeople with extra pay for a top merit rating from their supervisor on any select-



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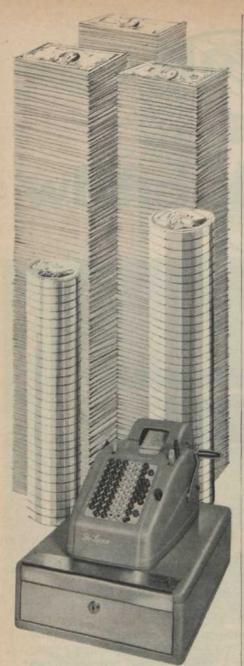
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DYNAMIC SELLING

continued

ed activity or function—it might be for improving the company's service to customers.

By offering the incentive commission in addition to salary on all repeat business—to get salesmen to spend more time and effort on serving the company's old and valued customers.

- 4. Determine the maximum allowable total cost of the plan and the percentage of anticipated sales volume.
- 5. Establish the amount or rate of individual payments which will be required to produce a strong incentive to carry out all the selling activities selected for emphasis. Estimate probable incentive payments to all sales personnel if anticipated sales results are obtained.

If the payments add up to more than the allowable total cost of the plan, eliminate some less important activities rather than reducing the rates and payments across the board. Plans which include strong incentives to encourage a few important selling activities are more effective than watered-down plans which try to motivate people in too many directions.

6. Test the plan thoroughly, computing the earnings of all participants under a variety of hypothetical sales conditions. Use the most optimistic and pessimistic forecasts conceivable, as well as current and probable future sales levels. Conduct a series of special tests. For example:

What will happen if the sales force is doubled?

What will the introduction of a new product line do to the plan?

Suppose territories in the Midwest are cut?

How will a decision to stay open until 9 p. m. two nights a week affect individual earnings?

- 7. Write a concise manual explaining the plan and test it thoroughly for clarity.
- 8. Announce the new plan to the sales force a short time before it is put into effect by means of a straightforward presentation explaining what the plan will accomplish and why.

This, in general, is the way it's done. To be more specific, here's how one company tailored a sales incentive plan to today's requirements:

This company sells sporting goods direct to retail dealers. Because its products and markets are always changing, management has to adjust selling strategy often. Last year emphasis was on increasing the number of dealers; this year, on bringing up dealer stock levels. The company is now planning an all-out program to help dealers move merchandise. Moreover, selling emphasis on new product lines must vary to meet regional market conditions.

To maintain the freedom of action necessary to keep selling on target, management selected a flexible incentive system. This was because the particular selling activities to be encouraged by incentives were sometimes changed as often as every six months, but no oftener.

Thus, management chose a point system incentive plan under which selected sales objectives are given point values corresponding to their relative contributions to profit. Sales quotas, in points, are assigned to individuals every six months. When quotas are set, management announces, for each region, which particular sales accomplishments have point values.

In this way, selling emphasis can be varied between regions and changed easily twice a year. Eastern salesmen, for instance, are being awarded ten quota points for each \$500 of sales volume to new dealers; western salesmen earn quota points for selling a new product line which is already moving well in the East.

The sum of all quota points assigned to salesmen is keyed to sales objectives selected for emphasis. Therefore, if all salesmen meet quotas, company objectives will have been attained.

To make sure that all salesmen are able to earn the extra pay whenever they do a better job, the company has fixed the value of quota points at \$3, with an added incentive of \$3 more for all points over half-quota.

Thus, a salesman who meets a six months' quota of 100 points earns \$450 in incentive pay. (\$150 for the first 50 points and \$300 for the second 50 points.)

As things have developed, the plan has met all requirements of the five-point design test given earlier and is working to everyone's satisfaction.

It motivates salesmen to stress selling activities selected by management.

Its over-all cost is kept in line with its profit contribution because management sets point values to correspond with anticipated profits.

Salesmen need only add up their quota points to know how much incentive they have earned at any given time.

The plan encourages initiative because the salesmen have distinct goals and they know at all times how much it will pay them to achieve them.

The basic structure of this plan would not even have to be altered in a recession because management can adjust sales emphasis by changing point values as necessary to suit market conditions.

Just as the incentive compensation plan in this example has been designed to fit one company's particular selling requirements so another type of incentive fits another company's needs. For example, if product lines, marketing channels and sales territories are fairly constant, a more stable plan may be indicated. Or, if salesmen require substantial support from technical personnel and field supervisors, an incentive plan rewarding them for teamwork and cooperation may produce the best results.

Not only are widespread improvements in incentive plans needed today, but the problem promises to intensify.

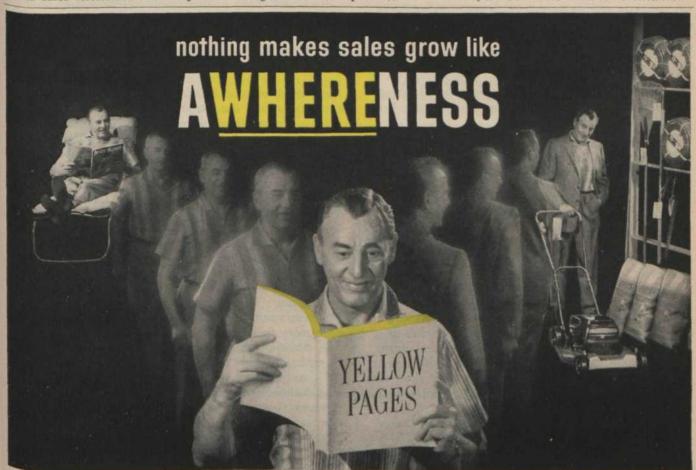
Prophesied for the 1960's is a period of population, production and general business growth outstripping any in the nation's history. Also predicted are changes in the buying habits of consumers and the characteristics of the markets. Marketing managers face the task of keeping this expanding economy in balance by selling an estimated annual increase of \$25 billion dollars in gross national product.

At the same time, a shortage of competent sales personnel and marketing executives threatens to become one of the most serious business problems of the next decade and underscores the need to make selling careers as attractive as possible to top-caliber people.

All of these things call for optimum application of the best possible sales incentive pay as one of sales management's most important tools

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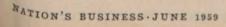
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YELLOW PAGES

YOU CAN HALT IT

Economy ripe for management action

WAGE INFLATION is one of the great hazards threatening a strong economy. It is something to fear. But this does not make it inevitable.

Three major economic institutions can help prevent it.

Of these, business management is in the best position to take effective action.

Government and labor can help.

Largely through the Federal Reserve Board, government is already moving away from its previous policies of supporting wage inflation.

Labor is just beginning to recognize the problem. It cannot be blamed too much for its tardiness.

Management was the most powerful influence in the United States until 1910. Management operated without much in the way of ethics or interest in the over-all economy. Although this led to growth at a rate Russia has never matched, the practices became so unpleasant that countervailing forces developed. Antitrust legislation was passed, and the Federal Trade and Interstate Commerce Commissions were set up.

But equally important, business developed a sense of national and social responsibility. Now many business firms have a sense of social responsibility as great or greater than the government has. Labor may develop social responsibility more rapidly than business did. Times are faster, data are much more commonly available, and the problem of wage inflation is better understood. But because the danger is with us today, not 50 years hence, management remains the major hope that wage inflation will be stopped.

Economic diseases, like human diseases, can be checked, once we understand their causes.

Let's start by putting the recent inflationary period in perspective.

Fears of continued wage inflation are generally based on projections of the recent past. Such projections are often misleading. It is dangerous, of course, even to project the long-range past. But it's much safer to look at the long range than the short.

The long-range review suggests that neither wage nor other inflation is necessary permanently. Over the period from 1800 to 1915 the price level fluctuated, but always came back to roughly the same levels. Prices went up in the War of 1812, then dropped. They went up during the Civil War, then dropped to levels 50 per cent below those of 1800. They did not reach 1800 levels again until World War I. They were below 1800 levels in the 1920's.

Analysis of the causes behind the recent inflation reveals major shifts in the complex forces at work again today. The pressures which have been forcing prices up again have been lessening. Offsetting factors once more are becoming dominant.

A situation similar to that of the '20's is once more becoming possible. Profits were relatively good in the '20's, employment was high, and unemployment averaged below four per cent. The real income of all groups rose without inflation. The Consumer Price Index rose a bit from 1923 to 1925, then dropped from 1925 to 1929.

At the end of 1929 it was within one half per cent of what it had been in 1923.

The '60's can have much more in common with the '20's, price-wise, than with the period 1945 to 1958.

Let's look at some of the reasons.

First, wage inflation is subject to the saturation principle.

When the first refrigerator was sold, each house represented a potential market. But as nearly every house came to have a refrigerator, the market began to be reduced to sales to two-refrigerator homes, and to replacements.

Wage inflation tends to follow decreases in hours, increased fringe benefits, and increased wages whose

costs for all workers exceed the increase in output per hour for all workers—not just manufacturing workers—and the increased cost of the capital provided for each man-hour of work.

Today, decreases in hours per week are getting smaller. Within the last century, men were working 12 to 16 hours a day. The steel mills were still working 12 hours a day in 1919. The shift from a 12-hour to an eight-hour day was a reduction of one third in a single step. Reductions of this sort have not occurred lately. They are highly unlikely to occur in the future.

Hours per day and per week were cut more from 1900 to 1910, 1910 to 1920, and from 1920 to 1929 than they were cut from 1940 to 1959. The decline was about one per cent per year from 1900 to 1920, one half per cent per year from 1945 to 1955. It may be about one fourth per cent per year from now on. So the pressures which must be faced as a result of reducing man-hours while maintaining weekly wages and supplying additional capital to offset the reduced output are less than they have been for a century.

Although the AFL-CIO has been pushing for shorter hours, the pressures behind this move are nothing like the pressures for the move to a five-day week or to an eight-hour day. Wives, as well as husbands,

wanted the previous cuts. But neither wives nor husbands are so sure that they want a cut to six hours a day or to four days a week. The saturation point is being approached.

The fringe benefit story is similar. When you pay no fringes one year and two per cent the next, you may have increased your costs two per cent. But when your fringes have risen to 15 per cent of wages, as they have in many industries, the chance of another 15 per cent rise can be appreciably less than were the chances for the first 15 per cent. Fringes in manufacturing have been rising about 14 per cent per year since 1946, as against 7.5 per cent for wages and salaries. Originally there was some reason for the demands. The reasons are becoming less and less potent. There is less reason for increasing the fringes from 15 to 30 per cent than there was for increasing them from zero to 15 per cent. The saturation point is coming closer here, too.

Wage inflation, like other social phenomena, also is subject to increasing offsetting factors.

These factors today—as in 1815, 1870 and 1920—arise generally from the reappearance of competition in its most virile form. Supply and capacity have caught up with demand in most areas, including labor. The company and the industry which permit

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THIS IS
INFLATION

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INFLATION

continued

Boom market for labor unions is ending

their prices to rise out of line, or which do not keep abreast of changing patterns of demand, are on the way down or out. Successful managers know this. Sales prices are now being examined. This means that costs are being put under increasing scrutiny.

Labor, too, knows supply has caught up with demand, that unemployment exceeds five per cent and may not again go much below four per cent for any extended period. It may, as a matter of fact, hover near five per cent occasionally. Five per cent of a 70 million labor force would mean 3.5 million unemployed. Whether the rate holds at this level or drops somewhat, total unemployment will be big enough to make unions more careful in their demands.

In time, the offsetting factors can equal the pressure for wage inflation. Whether they do or not will be decided by businessmen.

Another point to bear in mind is that union officials have been able to enforce their demands because the times were temporarily propitious. There was a market for all that could be produced, the price which could be charged was such as to yield a profit after even expensive production methods, the Federal Reserve Board was willing to provide the money, and labor was in relatively short supply. Resistance to increased wages was, therefore, relatively slight.

When, in addition, government supported increased wages, without much reference to cost, the chances of holding these costs in line with productivity were relatively small.

Actually, of course, the real income of workers has not risen more rapidly in the past decade than in previous decades. Increases in real earnings were as great and decreases in hours were greater without strong unions than with strong unions. Strong unions help dramatize what is happening. They give a personal dignity to labor. Unions serve a real purpose. But that doesn't alter the fact that it was a fortuitous combination of circumstances that brought wage inflation—not the fact that un-

ions are too strong to oppose. The unions are not too strong to oppose when they are wrong. The AFL and CIO united because of their growing weakness, not their growing strength. The shortage of labor and shortage of goods which made it possible for them to make uneconomic demands no longer prevail. The great changes in labor conditions, which coincided with the strong period of union development, are past.

Even if unions were to fight to the bitter end, real wages would rise at no faster rate than they have been rising, and the members would become disillusioned. So union officials no longer dare fight to the bitter

NATION'S BUSINESS recently pointed out the increasing difficulty unions are facing in trying to expand their area of influence, and to maintain the support of their members. [See "New Problems Change Unions' Future" in November issue.] Unions have made similar analyses for their own purposes.

As business, including commercial and technical work, becomes more automated, the workman tends to become a professional. A man who used to watch a lathe may now be an engineer. The person who used to punch a calculating machine may be developing and feeding programs into an electronic brain

The boundary between supervisors and workers is fluid and hard to handle. The significance of the craft versus the trade union is again becoming crucial. The attitude of the new personnel differs in many ways from that of the old. The developments of the past decade favoring labor against management have passed their peak. The trend has changed.

Businessmen have learned to accept responsibility. But in the battle of inflation, businessmen must go a step further. They must assume

leadership. They must recognize that productivity is a general phenomenon. A Worker's wage should not go up three times just because you give him a new machine which triples his output. The total income available for spending in the entire economy should rise in proportion to the rise of the output of the entire economy. But less than one fifth of those employed in the entire economy are production workers in manufacturing plants. The rise in wages in production plants should, in general, be hearer 20 than 100 per cent of the rise in productivity of manufacturing. As the rise in wages spreads



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INFLATION

continued

Productivity is the result of many factors

through the other 75 or 80 per cent of the labor force, total income will increase enough so that the increased output of the new machine can be sold.

Businessmen must convince the unions that increased productivity is a social, not an individual, phenomenon. The worker at the new machine may have an easier time because he has more automatic controls. It is a better-made machine with finer tolerances. The feedback mechanisms work more promptly.

This was made possible not just by the worker in front of it, but also by other workers and by those who planned, invested, took a chance, and produced. All these must and will share in the increased productivity the machine makes possible.

If wages are tripled for production workers in a manufacturing plant, they sooner or later must be tripled for the other 80 per cent. Five dollars in new money are then trying to buy one dollar's worth of new goods. This is inflation.

To fight wage inflation successfully, it will be necessary to hold wage increases to increases in total not just manufacturing—productivity, after allowing for increased capital investment.

Wage increases gained by the larger manufacturing unions have had relatively little direct effect on costs. Indirect effects have been significant. Steel illustrates this.

Dr. Simon N. Whitney, chief economist for the Federal Trade Commission, had his staff calculate the importance of steel in various commodities which consumers buy, as weighted by the Consumer Price Index. He found that steel goes into commodities making up less than 17.5 per cent of the index. The cost of steel may be roughly 10 per cent of the retail price of the items in this index. Increases in the cost of steel would support an increase in the CPI of six tenths of one per cent. Actually, the average steel-using items advanced only a fraction of the amount that the rest of the index advanced.

In appliances, especially, makers and dealers absorbed much of the



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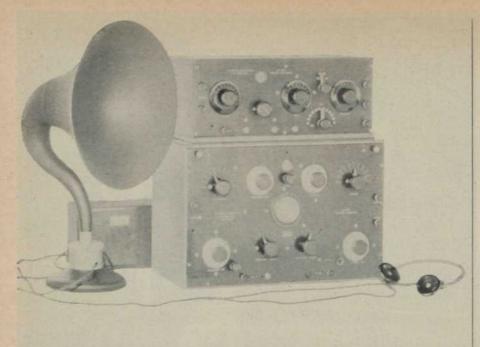
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INFLATION

continued

steel price increase. So the rise in the cost of living was not due to a rise in the price of steel following rises in wages. The rise in the cost of living was due to the secondary and tertiary influences, including the increases in wages elsewhere to match the increases in steel.

About 72 per cent of the increase in the cost of living from 1953 to 1958 came from items using little steel, among them medical care, personal care, food and housing.

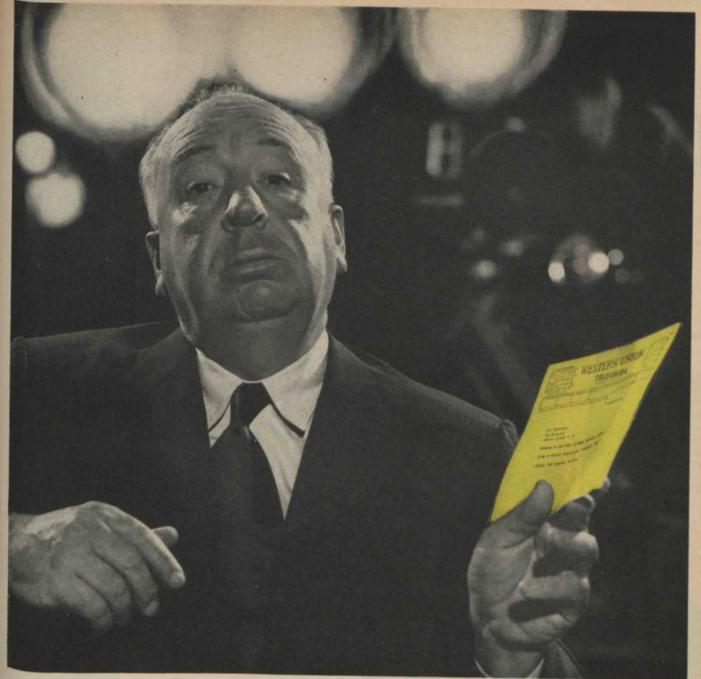
One of the biggest single increases, for instance, was in the cost of cutting hair. Barbers' wages went up about 10 per cent faster than manufacturing wages.

This is the real secret of wage inflation. When a group can capture most of the benefits of increased productivity in the form of higher wages, it becomes necessary to give similar increases to other groups to keep them satisfied. There is little reason for most barbers to want to remain barbers if they feel their wages would go up faster elsewhere. So you have to increase the pay of the barber as much as you increase the pay of your production workers. Service prices have gone up far more than prices for goods.

To stop wage inflation, businessmen must get this idea across to the public, to the workers, to their wives, to workers in nonproduction industries. If we are as good as we think we are in public relations, in advertising and promotion, this is not an insuperable job. The battle calls for strategy, courage, and imagination, but it can be won.

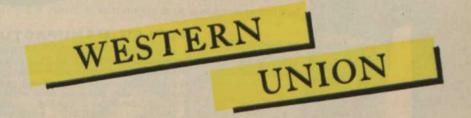
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Turn back to
page 39



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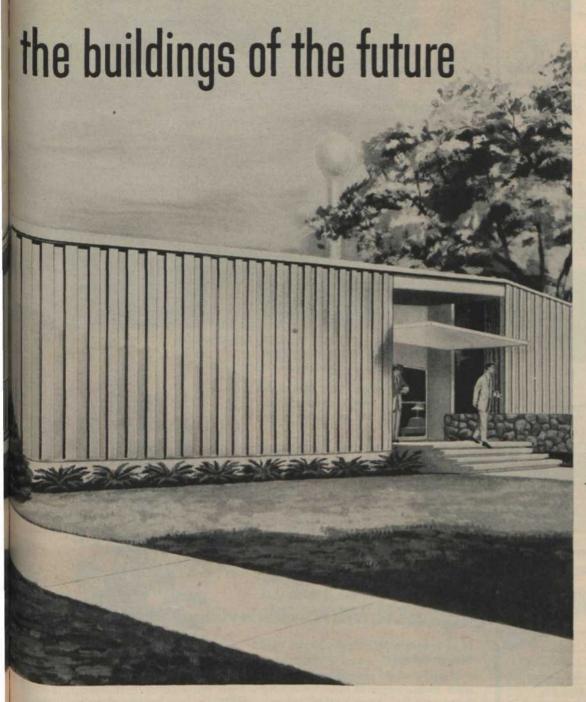


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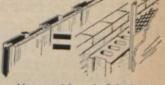


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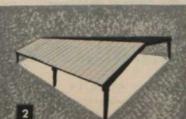


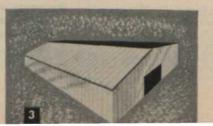
Monopani is only 3 inches thick, yet is equal in insulating ability to a masonry wall of 4 inches of brick, 8 inches of concrete block, 1 inch of rigid insulation with air space and ½ inch of plaster.

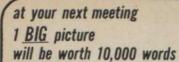
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MINIMUM WAGE continued from page 33

We may lose in foreign markets if we can't produce more economically

proliferates in the hope that it may survive.

Do increased minimum wages have adverse economic effects such as featherbedding?

Yes, they do. Always there is a group of workers who are marginal. If you put those workers under an increased minimum wage, it no longer pays to hire them. There's where you bring in featherbedding.

Almost all featherbedding, I believe, is the response to mechanical improvements. Theoretically, when people are forced out through mechanization they become available for other kinds of work; those who are competent workers, I am sure, do. Those who are inherently marginal may never again work and may merely swell our public assistance bill.

Do you see a danger that this welfare load will reach proportions that would sap the economy's vitality?

In some areas where population is highly concentrated I think it has reached that point now. People have been forced out of work or have found the work that they are prepared to do no longer available and have, in some areas, gone on the public assistance rolls and constitute a major source of city and state financial hazards.

We have all heard of some of the difficulties in Michigan. I think this particular factor is one of the problems there.

Is it feasible to retrain these displaced people?

Unions and management alike have been remiss in not attempting more such training. I think we are going to see unions and management cooperating in an attempt to retrain persons displaced; but it requires a kind of planning that so far has been difficult. It's difficult to find any area where there are jobs for which you would train these displaced people.

Do some of the current problems of American industry extend into foreign markets?

Yes, there are important implications. I have made fairly detailed visits with businesses and manufacturing establishments, particularly in Latin America, for the International Cooperation Administration. I find that little by little we are pricing ourselves out of their markets. I find British, German, Swiss and Italian equipment being installed. I notice that we are steadily losing our share of the automobile market in those countries that do not themselves produce automobiles. Last year in Costa Rica I found that almost no equipment is being bought from the United States. It is often accepted that we cannot compete with the low incomes of other countries. Yet our industrial genius has been in manufacturing, particularly in that kind of manufacturing which is based on the concept of an as-



sembly line. We are no longer able to keep our place internationally with the kind of manufacturing in which we are supposed to have the greatest inherent advantage.

I have noticed, more and more, a tendency for heavy installations, particularly power generators, to be met by equipment from other countries. Our own Los Angeles Department of Water and Power has bought two generators from a Swiss from

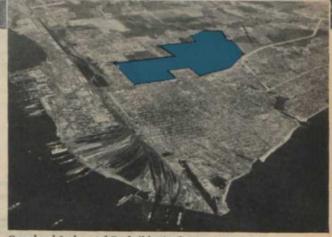
There, it seems to me, the difficulty was not a matter of different wage rates, but of the inability of our own domestic company to quote a firm price. The lowest do-



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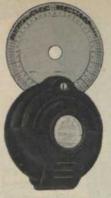
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MINIMUM WAGE

continued

mestic manufacturer had escalation clauses that would have added 50 per cent to the total price of the installation if wage rates went up. The bid from abroad was firm.

Is this spiral leading toward really serious trouble?

I think it is. I think we are going to find ourselves almost cut out of foreign markets if we don't find a way of utilizing our own factors of production more economically.

I hear a great deal about the need for humanitarian judgment in setting wage rates, and yet wage rates are set competitively. We don't set wage rates because we like to be kind to people. We do the best we can to build flourishing businesses with the full assurance that flourishing businesses provide attractive employment opportunities.

If we concentrate largely on increasing wage rates, then our businesses flourish less abundantly.

Is this something that the government should step into?

No. Every time the government intervenes we get one more rigidity added to the methods of doing business. What we need is less rigidity. Free prices in open markets constitute our best approach to maximizing our own domestic welfare. Whenever the government intervenes, we have fewer opportunities to manipulate our factors of production to the greatest efficiency. What I would look for is a more dedicated attitude on the part of management.

More dedicated in terms of seeking to maximize productivity?

Yes. Management has the responsibility to make the most efficient use of our resources and our labor supply. It has not always been doing that.

Looking ahead over the next five years, what principal economic challenges will we face?

Our first challenge is the containment of inflation. If we don't contain inflation we are going to have such a great upset of price relationships that most businesses will suffer greatly. If we contain inflation, then our biggest economic challenge is going to be a challenge of marketing.

A generation ago the management which could improve manufacturing efficiency had the answer to the nation's problems. Now we are able to manufacture a wide and varied line of consumer and producer goods, but we are not able to market what we can make. If we are able to improve our marketing techniques and contain inflation, then we will have a happy economic future.

Is the marketing challenge to stimulate new markets or to enlarge present markets?

It will be both, and it will be one of undertaking marketing at a lower total cost.

Do you foresee a big boom?

No. If we are able to use the fiscal controls we now have and know about, there should be no great boom and no great depression. In its place I foresee a rather high plateau of prosperity over a considerable period. I see nothing that would bring about growth such as we experienced in 1955. Yet, at the rate in which our technologies are increasing we could have some revolutionary manufacturing processes and important product changes.

What challenge does the future hold for the individual manager?

The possibility of making decisions that are individual rather than conforming to group decisions. Too few people are thinking independently. There has been too much adjustment to group at the expense of individualism.

As I look back it seems to me that most of the things we have accomplished have been accomplished by individuals. A committee is rarely efficient for development, origination or even implementation.

Could our economy adjust easily to peacetime operation if world Pressures were removed?

Our economy could not adjust to sudden change in any direction. All economic change tends to be gradual. If you postulate a sudden change, our economy would have a hard time adjusting to it. If the sudden change is an increase in the quantity of money, an increase in our power, a change in climate, or a change in international tension it will give us great trouble.

But in the long run you are optimistic about the prospects for the capitalistic system?

Yes. So far as I can tell, the capitalistic system is the only one we have ever had that produces abundantly and distributes to workers. The benefit of a capitalistic society is that it can both produce and distribute.







WHERE TAXES GO

continued from page 41

without apportionment among the states. From 1913 until now, we have had individual and corporate income taxes that have climbed upward almost without a break.

The initial individual income tax rates, ranging from a low bracket of one to a high bracket of seven per cent, shot up to six and 71 per cent in World War I. The corporation income tax went from one per cent to 12 per cent. In addition, some corporations had to pay excess profits taxes, plus a war profits tax.

World War II brought individual income taxes ranging from 23 to 94 per cent and increased the corporation tax to 40 per cent. In addition, an excess profits tax was levied. Certain types of excess profits taxes also were imposed during periods from 1932 to 1945.

After World War II, most excise reductions were postponed, though income taxes were reduced in 1945 and 1948. In 1950, with the Korean War, some excises were boosted even higher, and individual income taxes went from 22 per cent to 92 per cent. The corporate tax eventually was set at 52 per cent for taxable income over \$25,000, where it has remained since.

In recent years, federal tax change has largely involved revisions to ease the burden of high rates on groups or interests that were politically powerful enough or persuasive enough to show they were being hurt. The Internal Revenue Code has had 703 amendments since 1954.

This has led to a tax system so complicated that few tax lawyers can understand it thoroughly and a tax base so eroded that many billions in income escape taxation.

As for the immediate future, though Congress passed legislation raising taxes on life insurance companies and on railroad payrolls, only a few other tax-boosting proposals appear to have much chance.

As Chairman Harry F. Byrd (D.-Va.), of the Senate Finance Committee, told NATION'S BUSINESS, "I know of no other area that is undertaxed." Chairman Mills of the Ways and Means Committee has said repeatedly that a decision on whether to raise the tax on gasoline should wait until January 1961, when results of a study of costs of federal highway construction are to be reported to Congress.

He has said a decision on increasing the tax on aviation gas should await a Commerce Department study of national transportation problems. Corporation and excise rates will undoubtedly be extended without change this month. Technical changes with little revenue effect will probably be made in sections of the tax laws pertaining to corporate reorganizations, estates and trusts and partnerships.

Congress may limit the use of the mineral depletion allowance so that it can apply only to the extraction process and not to the later manufacturing processes. It may also consider whether income from cooperatives should be taxed.

Barring a war emergency, these are probably the only areas where taxes might be increased or extended. In spite of expected multibillion dollar budget deficits this year and next, as well as a national debt of \$285 billion, neither the Treasury nor congressional leaders plan to propose further taxes to meet the fiscal shortage this year. In fact, there's a chance a tax deferral measure may be enacted on earnings of American business from investment in foreign countries.

Sometime in the future, however, vast changes in our tax laws can be expected. This could mean lower rates, but possibly higher taxes for certain people who now are permitted preferential and differential treatment under the tax laws.

The increased dependence on income taxes as a source of revenue in recent times and the popularity of the theory of ability to pay probably will continue. However, Congress is aware that income tax rates are so high now that raising the higher brackets any more would not provide much money. More important, incentive for saving and taking risks for profit would be further stifled. Raising the lower brackets would provide revenue, but certainly no voter allure.

The Tax Foundation, Inc., a private research organization, found in recent studies that, except in recessions, cuts in top income rates have been followed by substantial increases in income subject to these rates. The same studies showed that a 50 per cent ceiling on income tax rates would still bring in about 98 per cent of current federal revenues from this tax.

Higher and more progressive taxes on corporations got some attention in the last Congress, but many lawmakers feel that much of the corporate tax is passed on to the public in higher prices, so that a hike in corporate rates has the effect of a regressive tax on the public.

Spending can't continue to rise

above revenues without more inflation and still less value to the dollar. Knowing this, Congress must act eventually.

Two main courses of action are represented in the thinking of the two top men on the Ways and Means Committee.

Chairman Mills is for broadening the tax base. He would eliminate certain tax differentials to provide several billions more in revenues. This in turn would provide an opportunity to lower individual and corporate income tax rates.

Representative Simpson favors reducing both individual and corporate top rates and enacting a broadbased excise or sales tax to raise more revenue in this way. Cutting income taxes and living within the budget would make more risk capital available to enlarge going organizations, build new business and provide more jobs. He told NATION'S BUSINESS: "A combination of tightening belts and wise tax reduction will provide new confidence and capital to spur the economy to greater heights." Congress, however, has shown little inclination toward belt-hitching.

Congress, in tax policy statements in the past few years, has tied the possibility of tax reductions rather closely to budget surplus. No budget surplus is in sight for at least the next couple of years, but since next year is election year, pressure for tax reduction will then heighten.

Rising personal incomes and profits are counted on in some quarters to provide the needed revenue to pay for federal spending. But Representative Mills, for one, has pointed out that there is no guarantee of this in the future.

The pace of spending has been such that federal outlays have doubled in only a decade.

In the final analysis, the need for increased revenues will probably force a revaluation of our tax system. It might mean lower taxes for some, higher taxes for others.

It is doubtful that, if Congress broadens the tax base, it will do away with the personal exemption, or income-splitting for husband and wife, for example, which costs many billions in revenue. But Congress might well tighten the definition of capital gains so as to discourage middle and high-income taxpayers from converting ordinary income into capital gains, taxed at lower

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Five tests for initiative

These basic qualities characterize the man who can get things done

THE MAN WHO is rising to the top in many companies today is the one who makes things happen.

Study of a number of these result-getters shows that they seem to have five basic qualities which mark them apart from other managers and administrators:

- ▶ They have an inner drive that less effective managers lack.
- ▶ They know how to sort out the vital from the trivial.
- They know how to tap and use the ideas of others.
- ► They are tough minded.
- ► They take obstacles in stride.

Only a few of these qualities are innate or natural. The rest are traits and work habits that men can acquire and develop in themselves. They can also be taught to others.

Men need to have them or develop them if they are to cope with two major forces that are pressing on management today: the larger size of companies and the wide range of problems a manager must cope with to keep abreast.

As companies get larger they run into what Prof. Kenneth E. Boulding of the University of Michigan has called the "scale barrier." This invisible threshold—a little like the sound barrier in flying—seems to stop programs from moving along, plans from being carried through, or the word from getting down from the top. As a result of this invisible wall, which takes the form of procedures, regulations and plain inertia, a lot of solid administrators in top spots get stuck on dead center when it comes to results. Staffs get so tied up in clearing every decision and writing memos that they don't quite connect fast enough to capitalize on profit opportunities.

Let's look at each and see how the men who make things happen overcome this obstacle and how we can learn to be like them.

Inner drive

Some people with this trait are endowed with an overactive thyroid, or an abundance of animal energy, but this isn't always the case. The big difference isn't mainly physiological. It's a habit of vigorous and positive approaches to everything, of restless unhappiness with things as they are, and a roving eye toward the possibility for improvement.

The doer has developed the talent for picking a single goal out of the millions available and mustering all his talents, knowledge, powers of persuasion and leadership to reach it.

He may pause while he's choosing a plan or map-

ping his strategy, but, once it's selected, his energies concentrate in a controlled form of organizational fury. More than simple activity, it's directed energy guided by an intelligent and well disciplined mind.

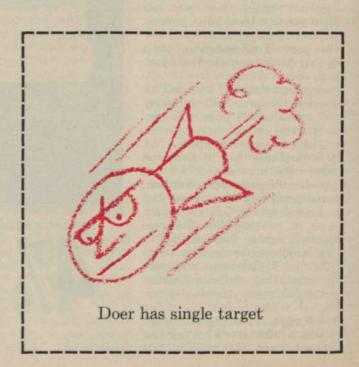
Building or training this inner drive into a man isn't done through pep talks. It's a combination of coaching the man to peak personal effectiveness in his daily work habits. When he's reached that level, the next step is to give him big challenges which test and prove his skills.

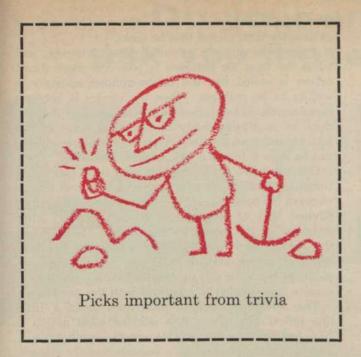
Pick the important things

In terms of skills which a manager can develop to function as a result-getter, one of the key abilities is to pick out the important things for action. The doer's desk gets piled with the same assortment of trivia as yours and mine. He gets as many requests for his time. He is invited to as many meetings and has as many opportunities to dawdle as the next fellow.

The first step in becoming an action-getter is to learn how to wade through the underbrush to find the really important things and do them first. This means that he has mastered several difficult steps along the way.

He has trained himself to scan the whole range of things that are pressing upon him and quickly evaluate the importance of each. One executive, for exam-





ple, gets ten requests for speaking engagements weekly. Rather than turn them all down, or accept them all, he measures the effect they might have on his other goals.

He might, for example, pick one with a small group of investment analysts if he's planning to go to the security markets soon. He might talk to an education group if his company is about to launch a recruiting campaign in the colleges. If community relations is a problem, he may accept chairmanship of a fund-raising drive. He may address a group of professional men if his company has market interests among them.

His power of adroit selection tells him which meetings to miss, which conferences not to attend, which visitor not to see, and which letter to buck to somebody else to answer.

He knows that everything he could do is not equally important. Because he knows this, he digs for the vital things. He looks for bottlenecks that will hold up a lot of other projects and breaks them. He puts the vital few things at the top of his list and pushes the trivial many to the bottom.

He's profit-minded and he pounces quickly upon things that might increase profits through immediate action, and will prevent loss if done without delay. He then uses this priority list to shuffle his schedule so that the essential gets done now and lesser priority items later.

He's quick to spot a trend that requires some action. If he sees that relations with a big customer are sliding, he doesn't wait to see what happens next. He starts an immediate action program to get things corrected so that the cause of the discontent won't recur, then goes to the customer and tells him what's happened. Most action-getters have two traits:

First, they more often than not go to the top man in the customer company—at least as high as they need to go to set things right. As one such executive put it:

"I find it better to deal with the chief of the tribe and not one of the Indians." Second, they are not afraid to admit their own mistakes and failure.

The important point again isn't that we must have a natural whirlwind to start with. Everybody has capacities which he may or may not be using. Guided experience and coaching in sorting out the facts before making decisions, and an opportunity to practice in real situations, is the key training method.

Ideas of others

He knows that nobody in the company, especially himself, generates all of the good ideas. He builds a climate in which every idea gets a fair hearing and lots of credit. It isn't just that his office door is open, he walks out and asks people how something should be done, then counts on their ideas to work. He has knowledge of whose ideas can be accepted without question and whose will need some tailoring.

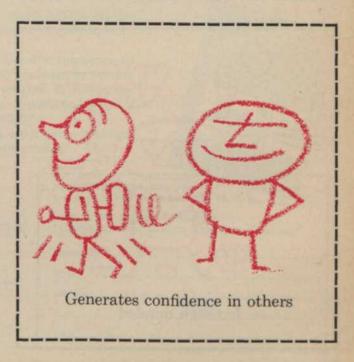
This implies that he's not just a self-appointed genius who swings his rank around to set people scurrying. He has patience to listen, ask questions and probes deeply into half-formed ideas to help the originator develop them. Not only that, but he makes it worth while for a person to bring him an idea.

If it's off the beam he explains why it can't be used. If it's good he'll give the originator sincere appreciation for what he's contributed.

His relationships with other people are warm and friendly, but he's probably no back-slapper. He's as respectful of the craft of a good machinist as of the brainpower of a Ph.D. scientist. He speaks well of his people both before them and when they are absent.

He's probably created a climate where people are thinking up ideas which they then put into action themselves. Because they know their manager approves of new ideas—as his own practice demonstrates—they aren't afraid to generate and try out some of their own. They know that an occasional failure or mistake won't cost them their scalp.

He doesn't demand checks and controls over every



FIVE TESTS FOR INITIATIVE continued

action of his subordinates. His good men find themselves with room to move. As one major executive put it:

"The little decision and the big one often require the same skills, but people let themselves become frightened when the possible bad consequences of their decisions increase in magnitude. It's like a steel-worker walking a girder. He walks the same way you and I walk along a narrow path on the ground. It's the height and the possibility of falling that makes working up there difficult. If I were to tell my people to watch their step and not to slip, they'd never be any good in making big decisions for themselves. I prefer to tell them, 'you can do it,' because I know that they'll get better that way."

One of the real skills of the action-getting manager is that of building confidence in people that they can generate and apply good new ideas in their job—just as their boss does.

Several methods of training men to tap and use the ideas of others have been used profitably.

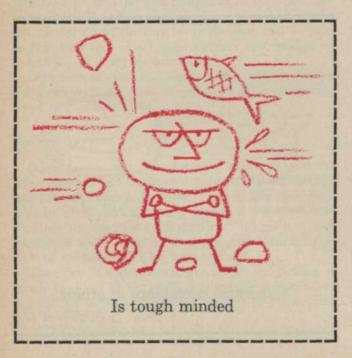
A sound course weighted heavily with training in human relations skills can lay the groundwork.

His boss can develop his taste for being "peoplecentered" by rewarding his success along these lines, and occasionally rapping his knuckles when he doesn't seem to have pulled his team along with him.

In his performance reviews, and through coaching and informal chats, he can be told that this is expected of him.

Tough-mindedness

Despite his concern with meeting the needs of others and meeting the basic needs of people, the action-getter has developed a tough-mindedness. For one thing, as Chris Argyris, management researcher of Yale, has put it, he has "a high tolerance for frustration." He can plug through all sorts of red tape without blowing his top when he has to. He frequently endures the delays and runarounds of committees and clearances with spartan endurance. He is patient



where such patience is the only possible way of getting the final payoff that he seeks.

This patience isn't submissiveness, however, and when the time for patience is past and more direct action is called for, the action-minded manager is willing to be ruthless. When the choice is between maintaining old relationships and getting the job done he is always ready to decide in favor of the job. Stepping on people's corns isn't his first choice, but he does it firmly if the occasion demands.

One executive found that his plan for a marketing campaign violated certain canons of taste and preferences of his boss' wife. Wiser heads and politic minds advised him to drop it and choose another. After weighing all the factors he finally went ahead. When the results were outstandingly successful his boss confided in him that, despite some troublesome moments at home, he was personally pleased that the executive had decided to go ahead with the program.

This tough-mindedness sometimes looks a little like inflexibility. Once he's decided what action is best, he'll stick to it no matter how the weather blows. This is partly because he's constitutionally dogged, but mostly because he knows that vacillation will be worse than picking a specific tack and holding his bearing. He knows that pressures for change are inevitable no matter what course he sets. He accepts them as part of the price for making headway.

The action-minded manager is probably toughminded in his relations with people, too. He's willing to stick by his people through their honest mistakes or to chop off heads as the need arises. He assumes that men are made of tough stuff and will work hard and take heavy blows as a price of making a living and contributing to the success of the business.

He will urge on a man who is working at less than his best abilities.

He is liberal with recognition for good work—and equally liberal with a reverse kind of recognition for the people who aren't performing up to their capacities. People over their heads in their jobs find this action-minded man a fearsome figure, one who will certainly drive them to perform things they hadn't thought possible, or face up to the fact that they have no great future in the organization until they do.

He's tough minded, too, in being willing to pay the prices for personal success. Long hours, hard work and man-killing travel schedules are the way of life for him. He concentrates on his job with a fury and singleness of purpose that reduces other things to a lesser role. This doesn't mean he's inhuman or a dull grind. His pleasure and his recreation are often found only in work. As one such executive put it:

"I think people in positions like mine have found a secret weapon which really isn't a secret at all—we don't quit. As I look back over 40 years and see the fellows who didn't go as far as I did, I think it's probably because they took a good look at the price you pay in family life and so forth, and decided to settle for less, I can't say they're wrong, it's just that they didn't make the same decision I did. They were willing to let themselves be outworked. Add a little luck to that, and it's a secret formula."

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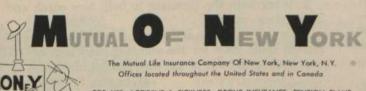
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FIVE TESTS FOR INITIATIVE continued

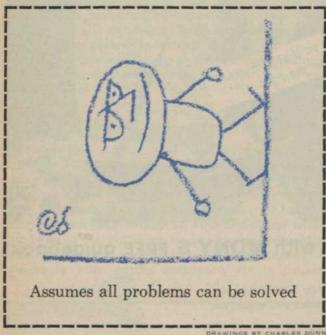
situations. This becomes a matter of assignment of men to places where they take pressure. Ford, General Mills and other companies now believe that the best place to start a young trainee of great promise is on a job. It's there that he'll develop the calluses that make him a tough, resourceful manager at 45.

Overcoming obstacles

Usually the action-getting manager is extremely skilled in overcoming obstacles. He becomes expert in analyzing a block and figuring out which of several ways will eliminate it or turn it to an advantage. This single ability probably contributes more to the aspect of the executive job called "zest" than any other. As one eastern manufacturing manager said:

"I get a real kick out of tearing into a problem that everybody is moaning about. When I solve something that everybody else said couldn't be done, the whole rat-race seems worth while."

One multiplant company has a young engineer



who has shown evidence of this skill. Whenever there is a sick plant, troubled with maintenance problems, high costs, labor troubles, or failure to meet schedules, they shoot him into the spot for a year or two as manager. Because he's built a reputation as a resultgetter, he gets the money and men he needs to solve the problems there. Inevitably he has found no plant in such sad condition that he couldn't put it on its feet in a couple of years—usually with a good strong replacement for himself ready to take it over when he leaves for his next assignment. Asked what formula he uses for handling such assignments, he replied:

"I pack up my bag and head for the new spot with the assumption that all the problems can be easily solved. Most of the time they are different than before, but that only makes it more enjoyable to me."

Confidence seems to be step one in approaching ob-

stacles. The fact that they are the same obstacles that have stopped other people provides a challenge to the action-getter. His aggressiveness is stirred by the possibility of doing something which others couldn't.

Often the action-getter finds that he has even more obstacles than those who don't get results. These are the obstacles which his own positive attitudes generate. In the more advanced stages of obstacle-hurdling, the action-getter even foresees these blocks and solves them first. He spends time getting the ideas and participation of others so that their support will be forthcoming.

Often he releases the obstacle-busting tendencies of others and simplifies his problems by adding supporters in his cause.

This skill in obstacle-solving grows out of experience in overcoming them. On some occasions the direct approach will work; in others, adroit footwork is needed. "The fact that I get results, I think, is attributable to the ability I have to know when to fight and when to run," one manager said.

Yet it's more complicated than that. It's a recognition that there are many ways of solving the problem, but underlying everything is a supreme confidence that it can and will be solved.

In developing the men who make things happen, major emphasis, it would seem, should be on careful selection of people who are willing to pay the pricepeople with hides thick enough and frames sufficiently durable that they can learn by being tossed against problems bigger than themselves.

Although conferences and courses can help, most observers agree that major emphasis should be on systematic coaching and carefully planned job assignments. In essence, a program to produce a manager who makes things happen must grind in some habits. The ingredients in this program will vary to meet the needs of the man but they will include:

- Early identification of the people who have the native equipment. This isn't much different from what we're doing at present.
- Assignments that give him these three major advantages for development:
- 1. Tough problems to solve and big jobs to do where he can see the results of good-or poor-performance early.
- 2. Assignment under an action-getting manager. One action-getter can strike off several copies of himself. If several go-getters are assigned to an actiongetting manager, they'll strike sparks off one another, too. Healthy competition is a good force for bringing out the "will-do" factors and causes people to bring out their best abilities.
- 3. Work with the manager to help him coach and guide these people.

Once you've got an action-getter in a spot where he can do some good for the company and develop his own talents, get out of the way and let him move.

-GEORGE S. ODIORNE

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HERE'S LOOK AT

tomorrow's work force

Shifts in U.S. job market will affect your business

ECONOMISTS STUDYING the longrange problems of the nation's work force find indications of this future

America in the 1960's may have economic prosperity, but at the same time a large number of unemployed, and perhaps millions of jobholders working less than a full week.

Other millions may be holding two or more jobs. Large numbers of people may be doing relatively lowskill work because they lack the qualifications to fill better jobs that are available.

To complicate matters, the millions of young people born shortly after World War II will be seeking jobs by 1965 and later.

To put the complex problem of future employment and unemployment into perspective for the business planner, NATION'S BUSINESS talked at length with Dr. Seymour L. Wolfbein, Deputy Assistant Secretary of Labor. As a top career government official in the manpower and employment field, he is uniquely qualified to interpret employment

Here is how Dr. Wolfbein views employment prospects for the remainder of 1959:

"Employment at 65 million is at an April record high, 2.1 million above April a year ago. There's a good chance that it will set a new record again in August. Last August, the figure was 65.4. It might go above 66 million this year.

"Unemployment, now about 3.6 million, is 1.5 million below a year ago. It will rise this summer. About 1.8 million youngsters will graduate from high school this month. Some will get jobs, some won't. But unemployment will drop again by September. Even if you assume only seasonal changes between now and fall, unemployment will move to a little less than three million-maybe below that-by October, one of the good employment months.

"This can't be labeled a prediction but it gives you a bench mark against which to measure what is going to happen in the future."

At present the total civilian labor force is a little more than 68 million. Youngsters out of school may raise this figure to a temporary 70 million this summer.

The Labor Department anticipates a work force of 73.5 million in 1960; about 79 million in 1965; 87 million in 1970; about 95 million in

This means that business and industry will have to step up their job-creating investment. The figure for the decade ahead will need to reach hundreds of billions of dollars. In the decade just ended, business and industry invested more than \$300 billion in new equipment. No one doubts that the investment requirement-whatever its amount may be-will be met.

But investment alone will not. prevent unemployment.

Dr. Wolfbein and his staff feel strongly that, in looking at unemployment, at least two things need to be explored. First is the over-all total. It makes a big difference, he points out, whether you have six million jobless or four million or two million.

"Second, no matter what the net will be, it is extremely important to look at the composition. Who are the unemployed? You can have only two million or three million unemployed and still have a serious problem if a substantial majority of them, for example, are unemployed for a long time.

"So I suggest that you look not only at the over-all total but the composition as well."

Study of tomorrow's labor force

shows some striking facts.

"One important thing about the future labor force growth,' Dr. Wolfbein explains, "has bee" brought out only in the past f

"We saw how the labor force ggoing up about 10 million betyer.



1955 and '65. When we looked further we found that a substantial proportion of the increase—about 50 per cent—will come from younger people. Older people will make up the other 50 per cent."

One group, Dr. Wolfbein says, will go down. That's the age group 25 to 34. People in this group were born in the 1930's when the birth rate was low. Right behind them, however, in the age group from 14 to 24, is a really whopping increase. These are the youngsters born in the 1940's when the birth rate was high.

So, in 1965 we'll have a shortage age group with a tidal wave coming behind it. The age group which is in short supply will continue to be short for many years. These people will be the 35-44 age group in 1975. You can trace them through the years and see what will happen in

the year 2000.

"All of a sudden the older-person problem won't be so big. But a decade behind them will come this smacking big group. So, suddenly, you've again got a big older-person problem—the biggest ever, as people born in the 1940's begin to reach retirement age." This peculiar population configuration has already caused some problems.

"We have just gone through the situation in terms of school needs. For a while pupils were lacking around the schools. Then came this tidal wave of youngsters."

Colleges and universities are already feeling the impact although

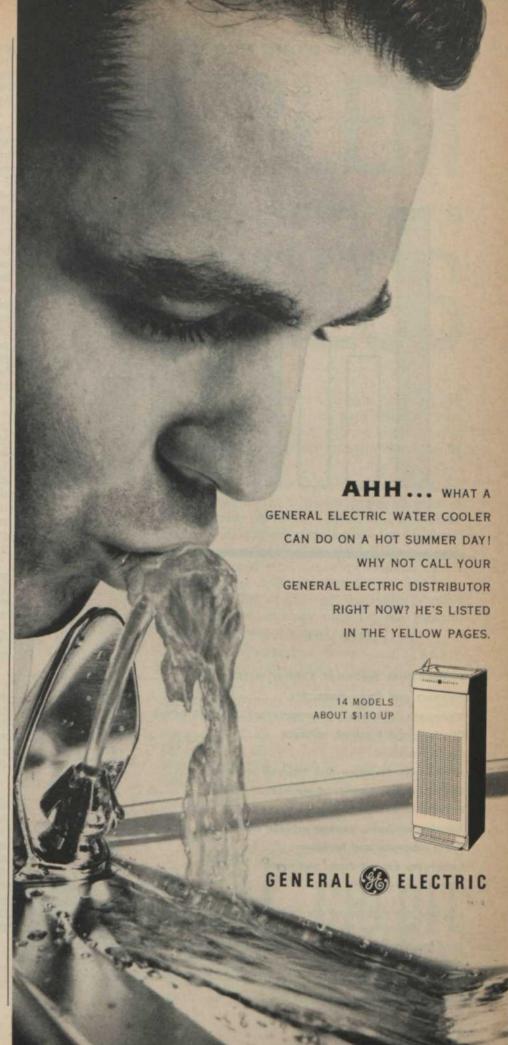
its full force is still ahead.

"The same thing is going to hap-pen in the labor force," Dr. Wolfbein says. "For the rest of the century we will have one age group in short supply. This means that as you continue into 1975 and on to 1985, the middle-aged person who is typically the skilled worker, the professional person, the executive, will come from a shortage age group."

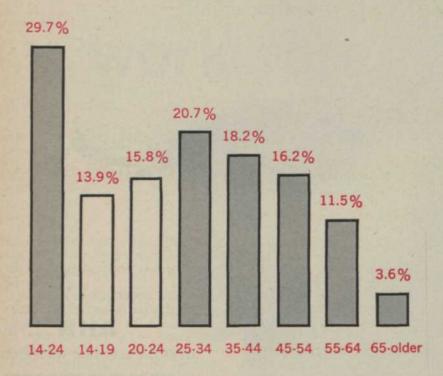
What will happen when this new wave of youngsters hits the labor market full force? Will there be widespread unemployment?

"We just finished a survey which s pertinent to the present as well the future," Dr. Wolfbein says.

We have always been worried ut what we call the differential of unemployment by age, h is a fancy way of saying un-



Percentage distribution of unemployment by age



Unemployment by major occupation groups

| Professional, technical, kindred workers | 1.6 per cent |
|---|--------------|
| Farmers and farm managers | .6 |
| Managers, officials and proprietors (except farm) | 1.4 |
| Clerical and kindred workers | 4.1 |
| Sales workers | 4.7 |
| Craftsmen, foremen and kindred workers | 7.3 |
| Operatives and kindred workers | 8.6 |
| Private household workers | 5,6 |
| Service workers, except private household | 7.8 |
| Farm laborers and foremen | 7.5 |
| Laborers, except farm and mine | 16.6 |

Highest percentage of unemployment is among young people, ages 14 to 24, as shown by the top chart. A Department of Labor survey reveals that many of the young jobless did not finish high school. The lower chart shows that the highest rate of unemployment is among groups which require little skill while people with job skills have comparatively less unemployment.

employment among young people is always higher. But we went one step further. We asked ourselves: Why do the young people have this high unemployment rate?"

Survey teams interviewed 22,000 youngsters in seven areas—12,000 who graduated from high school and went to work and 10,000 who went to work before graduating.

In each area the unemployment rate for the drop-outs was far greater than for the graduating youngsters.

Dr. Wolfbein points out:

"Unemployment rates for the boys who dropped out were 22 per cent, 27 per cent, 24 per cent, and so on, for the various places surveyed. Of those who graduated the percentages run four, three, eight, and so on. The girl drop-outs show 26 per cent, 35 per cent, up to 50 per cent. But the jobless girls who graduated from high school number only five per cent or so; in one area, only one per cent.

"This points out, it seems to me, a really major problem. Even at present the tables of unemployment by occupation show that among professional people unemployment is 1.6 per cent; in the managerial group, 1.4 per cent. But among those with the least education and training, the jobless rate is 16.6 per cent. Education and training do not guarantee you a job but they give you a big head start."

Now what will happen when we get this big group of young people joining the labor force in the years ahead? How much unemployment we have will depend on how good a job we do in teaching young people the skills that will be required in 1965 and 1970.

Dr. Wolfbein continues:

"We in the Labor Department are worried less that the unemployment rate will be high in 1965 than about whether many people will be working fewer hours and at the wrong skills. Basic changes are occurring in the occupation structure."

What are these changes?

"We've had a dramatic change in the industrial picture. More people are now producing services than are producing goods. We now have more white-collar than blue-collar workers. One of the major reasons for this has been the change in productivity. We have increased the skill level of the occupations now in demand, and more and more people have more and more training.

"If you are going to compete for a job you can expect other applicants to have a pretty high level of education."

Most recent figures show that

the age group 25-29—people who have finished their education—the average is 12.1 years of schooling. That means the average person has more than a high school education. A generation ago the median was eight years.

A good part of this, Dr. Wolfbein believes, is due to the fact that jobs require more training today.

"This is why we are worried about the drop-outs," he says.

"We find, incidentally, when we follow some of these drop-outs that they potentially could fill some of the skilled jobs that they don't fill now.

"But by 1965 and thereafter we are going to have—just in terms of sheer numbers—a tremendously bigger problem than we have now in getting people jobs and in getting people the right kind of jobs."

Are we going to have to start thinking in terms of higher percentages of unemployment as normal?

Dr. Wolfbein says: "Back in 1944 and 1945 people were asking the same question. Where are we going to put all these people to work? How are we going to get jobs for the millions of people who are going to be in the labor force after the war? Well, we did.

"I think this is always a good thing to keep in mind. The labor force increased by 15 million. We supplied jobs for all of them."

One thing is sure, however. High school drop-outs will constitute a serious drag on the economy in the future. "I do not think there is any question about that," Dr. Wolfbein says.

The person who wants employment opportunity in the future ought to seek training that will enable him to adapt himself to an era of improved technology. Backing this up are new studies Dr. Wolfbein's staff made recently in cooperation with the National Science Foundation.

"We studied not only the employment of engineers and scientists but also those who support the engineers and scientists. Without going into a lot of fancy figures, there has been an enormous growth in the skilled people and the technicians who support engineers in research and development. We think this will be one of the really big growth areas in the future."

But Dr. Wolfbein cautions: "Edution does not guarantee the dispearance of unemployment in the ited States.

raining is merely the qualifia with which one improves his tunities for employment." END DON'T LET A CASH

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7 STEPS SHARPEN DOLLAR DECISIONS

These check points help you determine the best course for profitable action

EVERY DAY a businessman chooses between alternatives which have two qualities in common: the need for money and the hope for profit.

For example:

From a list of proposed capital expenditures, the management must select those that provide the most promising profit opportunities.

From a list of research projects, management must choose those that fit into the company's budget.

Management must decide whether to enlarge the plant or buy a related company.

Those are a few possible situations. There are many more.

All other things being equal, the relationship of profit to investment gives the answer as to which line of action management should pursue.

The process through which investment and profits are defined and projected is called financial analysis.

Every businessman is an analyst. When he acts on the basis of inadequate information or of untrained thinking, unfortunate results occur. Thus, many well informed managements have established the position of financial analyst as a screening point for all profit-seeking ventures and all proposals involving the outlay of capital. The analyst sets the stage for decision and action. The process includes the selection of the problem, the weighing of alternative solutions in the light of their profit potential and, finally, the process of elimination through which the most profitable alternative is How are these things determined? By finding the answers to seven simple questions:

- 1. What is our investment now?
- 2. What will investment be after the proposed change?
- **3.** What is the difference between one and two (above)?
- 4. What is our profit now?
- 5. What will our profit be after the change?
- **6.** What is the difference between four and five (above)?
- 7. What will be the rate of return on investment?

The project might be a research expenditure or a plain capital expenditure. It could be the liquidation of one part of a business and the set-

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ting up of another operation. It might be simply a replacement of

old equipment by new.

In the simplest form of analysis, you have alternative number one versus alternative number two. It is fundamental to recognize the differences between them.

THESE STEPS ARE ILLUSTRATED IN WORKSHEET **OPPOSITE**

STEP 1 Measure investment now

Simply put down on paper all the money or capital presently tied up in the operation. This will include the normal working cash balances, accounts receivable from customers, raw materials and supplies, workin-process inventories and finished goods, prepaid items and other current assets. From this total, deduct current liabilities, that is, notes or accounts payable, accrued items and unpaid taxes. The amount remaining is working capital. To this is added the gross investment in plant, property and equipment. The answer obtained is total investment. This is the amount invested now, in the present situation, before reflecting the proposed alternative.

In the worksheet, opposite, this first step is shown, indicating an investment of \$32,000. This is gross investment before subtracting depreciation reserves. As such, it serves as a good common denominator in the measurement of capital investment, permitting fair comparisons between divisions or segments of the business, and comparisons of one year with another. It is also an easy and factual basis of measurement for use in showing actual results over a period of time versus plans budgeted. It is all-inclusive and conservative. It is the basis generally used in successful companies for expressing the investment base.

STEP 2 Measure investment as projected

This is the same as step one, except that investment is now being projected into the future to reflect the situation that will exist after the proposed alternative is completed.

In our example this step reflects a proposed 25 per cent increase in plant capacity. Property, plant and equipment are projected at \$25,000 against \$20,000 now, while working capital is projected at \$14,500, up a little less than 25 per cent from present levels, reflecting a somewhat more economical use of working capital in the projected operation. The investment in the proposed alternative is added to give \$39,500.

STEP 3 Effect of the proposal

This is simply the difference between steps one and two. In the example it is shown at \$7,500. This is the increment of investment added in moving from the present situation to the proposed alternative.

STEP 4 Measure profit now

The example shows the suggested formula. Sales minus cost of sales is equal to gross profit. Gross profit minus expenses equals earnings before federal taxes. From this, federal tax provision is subtracted, and the answer is profit. Call it net profit. Call it after-tax profit. Call it book profit. It is all of these things. In the example the profit in the present situation is shown at \$1,500.

STEP 5 Measure profit as projected

This is the same as step four except that we are moving from the present into the situation as projected after the proposed moves have taken place. The example shows the effect of the proposed alternative on operations. Sales are projected at \$25,000, up 25 per cent, while the projected rise in costs and expenses is somewhat less proportionately, reflecting anticipated economies and the use of existing services in some areas to accommodate the expanded volume. As a result, profit is projected at \$2,000, up 33 per cent.

STEP 6 Effect of the proposal

This is the difference between steps four and five. When one measures effect in this way, it is called the incremental approach, because the answers here are the differences or increments between the cross section of operations called present situation and a second cross section called proposed alternative. This is the only safe approach in problems of this kind. In the example the effect is clearly shown. Profits are rising from their present level of \$1,500 to a projected level of \$2,000. The effect is \$500.

STEP 7 Measuring per cent return

One can well imagine that investment has been measured, reflecting the status at year end. Against this, profits have been measured on an annual basis. There remains the problem of relating one to the other. Profit divided by investment gives per cent return. In the present situation, \$1,500 of profit is earned annually on \$32,000 of investment, a return of 4.7 per cent. In the proposed situation, \$2,000 of profit is estimated on \$39,500 of investment, a return of 5.1 per cent. Finally, moving from the present situation to the proposed alternative, the increase in profit is \$500 and the increase in investment is \$7,500, an incremental return of 6.7 per cent. This is the effect of the proposal and the basis for decision and action.

Once these steps have been taken how does one actually decide to go ahead on specific ventures? Suppose there is not enough money to cover all attractive opportunities? Or suppose that the available funds are already earmarked at a time when an even more attractive opportunity comes along? Is it first come, first served? Or can the selection process be achieved more intelligently? The following six steps give a suggested answer to the problem:

1. Once each year, about Jan. 1, prepare an annual budget for the coming year in which all potential spending projects are listed and

fully supported.

Include research projects, capital expenditures and all potential pur-

chases and acquisitions.

- 2. Review all projects carefully and eliminate those which do not fit into the company's long-term opera-
- 3. Earmark those projects of an emergency nature, including replacements of worn equipment or other appropriations vital to the continuation of the present operations-projects necessary to protect the ctatus quo.

4. Establish a minimum rate of return-say eight per cent. Then eliminate all projects falling below this level.

5. Determine a total spending budget after considering all sources of available funds, including retained earnings, depreciation an cash available from new capi/ sources. Almost invariably, fulavailable will fall short of the r.

spending projects; then further

pruning must be done.

6. Reduce the spending program to the funds available on the basis of the profit potential, accepting those with the greatest indicated percentage return (net profit divided by gross investment) and rejecting those with the least indicated percentage return.

Of course, one must realize that decisions cannot be based entirely on quantitative measures of investment and return. But such measures provide an essential starting point. From this, one must proceed on the basis of good judgment to consider influences which do not show up in

the statements of investment and profit. Among such judgment factors would be appraisal of the practical possibility of meeting projected cost and demand levels. The degree of risk involved, of course, is one of the important factors.

All other things being equal, a high risk proposal requires a higher profit return to compensate for the risk than would be the case with a proposal in a more stable field where the probability of meeting the projected cost and demand levels is more certain.

Finally, one cannot overlook the relative life spans of the various proposals.

The aim of financial analysis is to provide a common meeting ground and check point through which divergent points of view at various management levels can be reconciled with an eye to the maximum profit potential.

—RONELLO B. LEWIS General Partner E. F. Hutton & Company

REPRINTS of "Seven Steps Sharpen Dollar Decisions" may be obtained for 10 cents a copy or \$6.75 per 100 postpaid, from Nation's Business, 1615 H Street N. W., Washington 6, D. C. Please enclose remittance with order.

COMPARING PRESENT SITUATION WITH PROPOSED ALTERNATIVE

| PARTICULARS | PRESENT | PROPOSED ALTERNATIVE | EFFECT | |
|---|---------------|-------------------------|------------|--|
| le graff resignation and contract sets in a will be | STEP ONE | STEP TWO | STEP THREE | |
| Cash on hand Accounts receivable Raw materials Work-in-process Finished goods Prepaid items | 2,000 | 2,250 | 250 | |
| | 4,000 | 5,000 | 1,000 | |
| | 2,000 | 2,400 | 400 | |
| | 2,000 | 2,400 | 400 | |
| | 5,000 | 6,000 | 1,000 | |
| | 1,000 | 1,200 | 200 | |
| CURRENT ASSETS Less: Accounts payable, unpaid taxes, etc. | 16,000 | 19,250 | 3,250 | |
| | 4 ,000 | 4,750 | 750 | |
| WORKING CAPITAL Add: Property, plant & equipment | 12,000 | 14,500 | 2,500 | |
| | 20,000 | 25,000 | 5,000 | |
| TOTAL INVESTMENT | 32,000 | 39,500 | 7,500 | |

| | STEP FOUR | STEP FIVE | STEP SIX | |
|---|-----------|-----------|----------|--|
| SALES Less: Cost of sales | 20,000 | 25,000 | 5,000 | |
| | 15,000 | 18,600 | 3,600 | |
| GROSS PROFIT Less: Expenses | 5,000 | 6,400 | 1,400 | |
| | 2,000 | 2,400 | 400 | |
| EARNINGS BEFORE FEDERAL TAXES Less: Federal taxes on earnings | 3,000 | 4,000 | 1,000 | |
| | 1,500 | 2,000 | 500 | |
| TOTAL PROFIT | 1,500 | 2,000 | 500 | |

| | | | STEP SEVEN |
|--------------------------------------|------|------|------------|
| RETURN: Profit divided by investment | 4.7% | 5.1% | 6.7% |

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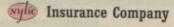
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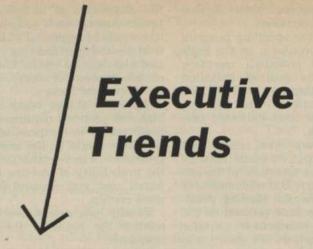
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Does management expect too much of people?

Dr. Seymour W. Beardsley, Washington psychological consultant to business and government, says many organizations make the mistake of looking for a man who can be all things to all people.

The simple truth, he says, is that there are few if any such human marvels to be found. A single individual rarely combines in his personality all the positive human characteristics. Most of us, in fact, are fortunate if we have two or three strong qualities.

Britain's Lyndall F. Urwick, a world-renowned management consultant, has described the search for the elusive superman this way: "Business often seems to be looking for supernatural beings at the price of a third-rate hackney driver."

The fallacy of expecting too much frequently arises in the sales field, according to Dr. Beardsley. Management seeks a creative salesman who can also turn in an outstanding administrative performance. But the qualities that make a man an outstanding salesman usually are not those that distinguish a successful administrator. The trick is to recognize an individual's dominant personality trait and make the fullest and best use of it.

Report on the executive job market

June is a month when many companies step up their search for new blood. This June, with the economy continuing its recession comeback, there is more than usual zest in the manpower hunt. Many a recent college graduate will spend his summer thoughtfully weighing the comparative advantages of different companies.

Current demand for executives, according to a job-openings index maintained by Heidrick & Struggles, Inc., Chicago-based executive recruiting firm, is about 50 per cent higher now than it was a year ago. The greatest rate of gain has been registered by the defense engineering category, and this because of expanded defense programs.

Most other management job classifications also are in an upward cycle of demand, with a greater than normal call for men at higher salary levels. Companies stepping up their sales, research and manufacturing tempos to meet rising demand are reinforcing key positions with new men, and recruifing companies report a marked increase in job-shopping by managers.

Interest in overseas business grows

Excitement over international investment and market opporties for American companies has reached a high pitch. "You

go into a hotel lobby in Europe without stumbling over some industrial investigating team," one businessman noted recently.

The opening of the European Common Market, increased international competition, and economic sparring with the Soviet Union all are contributing to the growing interest in foreign business opportunities.

But, as E. V. Huggins, chairman of the executive committee and vice president of Westinghouse Electric Corp., puts it, "Management has to decide through the profit motive what it will make abroad and where it will make it."

Mr. Huggins says the factors to consider in making foreign investment decisions include these: 1. Labor costs. 2. Local laws. 3. The market—its size and potential. 4. Return on the money invested. 5. Existing and potential competition. 6. Amount of investment required. 7. Available manpower. 8. Present degree of industrialization. 9. Tax and other incentives.

Common Market will strengthen U.S. trade

Although it might appear at first glance that the European Common Market will make it harder for American firms to compete in Europe, such will not prove to be the case.

This is the view expressed by a heavy industry specialist in the European office of a large American manufacturing firm. Interviewed by Nation's Business at the recent Washington congress of the International Chamber of Commerce, this expert stated that the Common Market will result in a stronger and more prosperous Europe and therefore in a better and wealthier customer for U. S. products.

The interviewee emphasized that, unlike expanding in the United States, a careful assessment must be made of the long-range political stability of the country into which expansion is considered. The U.S. Department of State and Bureau of Foreign Commerce are the best sources available to business for such an assessment.

Are businessmen really ethical?

Recent years have seen an unprecedented surge of interest in the ethics of businessmen. The subject has been dissected in novels, television dramatizations, in special studies and articles.

One of the newest approaches to the subject is that of a group of social researchers working at Michigan State University under the direction of Dr. Eugene E. Jennings. In depth interviews with more than 150 top, middle and lower echelon executives this research team has turned up some surprising, although tentative, findings.

Among their conclusions is this: Many businessmen conduct their business lives under the guise of being trustful of their associates, when actually they have deep reservations about trusting them and act primarily on the basis of studied self-interest.

The MSU pilot study does not mean, its sponsors say, that the executive is a moral or ethical person. It does indicate, however, that many busismen teel forced to practice a different code of ethics in business than they a their personal lives. Relatively secure executives were found to reflect to of ethics most closely corresponding to traditional Christian-Hebrew principles. Less secure, more ambitious men tended to show a distrust an nature and a more calculating approach in human relations.

HELPS KEEP KEY PEOPLE



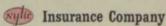
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The National Chamber works to maintain an atmosphere in which private business can operate efficiently and at a profit, without excessive governmental control. It works to safeguard personal and economic freedom—to unleash the creative energies of people—to build a better economic and social order.

The National Chamber carries on its work in these five areas of activity:

- 1. RESEARCH—The Chamber studies national trends, economic problems, legislative controls. It analyzes the facts, interprets the issues, and spreads the information to businessmen, public officials, educators, editors, and others.
- 2. POLICY MAKING—The Chamber determines where business stands on national issues, sets up a program for concerted action—and keeps this program adjusted to changing conditions.
- 3. OPINION DEVELOPMENT—The Chamber builds a better public understanding of national problems and legislative proposals affecting business, and builds greater support for the business point of view.
- 4. SERVICE—The Chamber helps voluntary organizations of businessmen grow in usefulness, each in its own field—and on the national scene.
- 5. ACTION—The Chamber trains and equips businessmen to assume greater citizenship responsibility: to be more articulate spokesmen for private business; to voice well-reasoned views to the Government on national issues; and to be politically active.

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continued from page 38

nance certain intragovernmental buving activities and "no-year" appropriations, under which many long-term defense projects are financed.

Add to this the fact that Uncle Sam already has billions of dollars promised each year to a number of basic programs or obligations, such as public assistance payments to the states, veterans' pensions and interest on the national debt. Control and choice over where and how public money will be spent, therefore, has been drastically limited.

In this era of towering defense costs as well as other burdensome federal commitments, I don't think we can suddenly do away with big budgets. But I believe we can save billions of tax dollars as well as help create a fresh public attitude toward federal spending. We can do it by adopting a three-part program aimed at rewarding economizers, tying taxes to spending and tightening or creating new controls over the purse strings.

1. Members of Congress and other federal officials who fight for economy could be recognized through some system of thrift-ratings and awards. This could best be done by a private, national nonpartisan organization, which could devote singular emphasis to the fiscal aspects of any federal proposal.

This organization should be a responsible and respected group. It should have the resources and facilities to estimate the cost and appraise the effect of new spending ideas or programs as soon as they are proposed. It should make known its findings quickly and lucidly to government and the public.

Particularly, it should help congressmen with cost data even as bills are drafted.

An organization such as this has operated on the state and local level in Florida for 20 years. It is the Florida Tax Information Association, Inc. Probably other states have similar nonprofit, nonpartisan groups to promote efficient spending of public dollars.

On the national level, through awards to effective and economyminded public servants, and objective fiscal analysis, a similar organization could command widespread attention and stimulate a new respect for sound government paid for with sound dollars.

2. Pay-as-you-go and user charge principles, I believe, could be more widely adopted, both to pay for government services and to impress immediately on the public the cost of a program or activity.

The federal highway construction program is materially paid for through the tax on gasoline. Social security is financed by a tax on prospective beneficiaries. I believe many of the supporters of the expensive federal aid for school construction proposals would think twice if a broad-based tax to pay for the program were tied directly to the legislation.

A number of existing charges and fees could be raised so that the citizen who is served pays for the service and knows what it is costing him. The cost of the postage stamp, for example, was finally raised from three cents to four cents last yearthe first increase in 25 years. The Postal Service is still short of paying its way by more than \$500

million a year.

Since no formal over-all consideration is given to the budget by Congress, a joint congressional budget committee, it seems to me, could be set up for this purpose. It could also appraise public needs. It could determine whether an activity is a proper one for the federal government, or whether it should be done on a state or local level. It could coordinate and advise on the work of the tax-writing House Ways and Means and Senate Finance Committees and the Senate and House Appropriations Committees. And it could survey ways for putting more federal activities on a direct pay-asyou-go basis.

3. Procedures could be tightened or new ones created for better control of federal spending. Congress should accept a resolution sponsored by Rep. Howard W. Smith of Virginia, our Rules Committee chairman, aimed at stopping backdoor trips to the Treasury. Representative Smith's idea is to require that all spending be routed through the Appropriations Committee. The legislative committees would still have the power to authorize programs, but any spending scheme would get the traditional annual check of the Appropriations Committee.

Legislative committees tend to favor their particular field of interest. The Agriculture Committee for instance, wants to do all it co for the farmer: Merchant Mar and Fisheries Committee want serve maritime interests. The A priation Committees can av the worth of individual prand balance one against r.

when all spending ideas go through this important unit. A like proposal to make sure all spending is channeled through the Appropriations Committees is also pending in the Senate

A greater control over spending could be achieved if money bills were handled differently. Congress now acts on 12 to 15 separate regular appropriations bills plus other supplemental appropriations. Sometimes we increase, sometimes we cut; but we never know whether more has been appropriated than there are revenues to pay the cost until the last bills are voted on.

House Appropriations Committee Chairman Clarence Cannon of Missouri, Senate Finance Committee Chairman Harry F. Byrd of Virginia and other congressional veterans have often proposed that all the regular appropriations bills be handled in one bill. An omnibus appropriations bill could give Congress new perspective, balance and control over how public money is being spent.

Another related idea could have the same effect. Final action could be postponed each year on spending bills until all of them have been considered. The bills could be kept in a sort of deep freeze until the end of a congressional session. Then individual bills could be revised up or down to keep total spending from spilling over the revenue coming in

Congress, at the least, should have available a formal running account of its spending. In addition to the President's annual budget document and midyear revision, Congress should have up-to-theminute information summarizing appropriations, expenditures, receipts and the effect of pending bills on over-all totals.

Finally, I'm sure untold amounts of money could be saved if the President had the power to veto separate items within appropriation bills rather than being limited either to signing or vetoing money bills as a whole. Since the item veto first appeared on the American scene in the Confederate Constitution, 40 states have adopted the idea. With the item veto, the President could effectively cut the fat out of appropriations and assist materially in what all loyal Americans really want—an effective but conomical government.

am confident that the program
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tax money which are so sorely
d today.

END

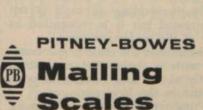
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Pressure mounts against featherbedding

New action by management could reduce labor waste

UNION INSISTENCE on wasteful practices which cost business and consumers billions of dollars a year is coming under heavier and more direct attack. More employers are coming to grips with the problem directly as legislative protections prove ineffective.

The railroads are going to have a showdown on so-called union featherbedding in 'new union, contract negotiations which come to a head this fall.

The construction industry has got building trades union leaders to participate in a joint effort to cut construction costs and help promote the industry's interests.

Many individual employers are taking a close look at wasteful practices that might be eliminated and help cut costs, sometimes at the risk of a strike.

Pressure for cutting costs by attacking featherbedding intensifies as the inflationary threat grows and more businesses seek relief from the profit squeeze. The squeeze comes when rising labor costs become harder to pass along in price increases.

Elimination of some jurisdictional practices demanded by unions will also help ease the shortage of skilled workers which exists today and is expected to get worse in the 1960's.

The term "featherbedding" is used to cover such things as: forcing use of more workers than are needed or desired; pay for work not performed; and refusal to use laborsaving tools, materials or methods. It also includes such related practices as requiring use of higher skills than are needed to perform a task, loose work standards, slowdowns and work restrictions, loafing, restriction of markets and other devices which add unnecessarily to costs.

Hardest hit by the most obvious of these practices have been the transportation, construction, publishing and entertainment industries. In more subtle ways often hard to measure, wasteful practices exist in manufacturing, retailing, communications and most other industries. One way or another, all business is affected.

Sometimes management's attack on featherbedding is open and direct. Unnecessary setting of type which is not intended to be used—so-called bogus type—was an issue in a recent dispute between the International Typographical Union and New York newspaper publishers.

The nation's railroads have requested the unions to join in asking President Eisenhower to set up a citizens committee to study and help eliminate outmoded work rules which the industry says cost the public more than \$500 million a year and have caused the loss of 500,000 jobs since the war.

Sometimes efforts at correction are undertaken more quietly, as in the construction industry, where featherbedding is notorious. Without fanfare, contractors and top building trades union officials have recently organized a Construction Industry Joint Conference to tackle mutual problems, including promotion of the contract system in construction and improvement in productivity.

Featherbedding as such is not mentioned but it is recognized as one of the major problems.

Sometimes the issue is met headon with a strike that may seem costly at the time but can be costsaying in the long run.

Pittsburgh Plate Glass Company took a strike of more than 18 weeks, by 13,000 employes in eight glass plants, rather than continue work rules which were so wasteful that the company had lost a substantial part of its glass business because it could not compete.

Under rules the Glass Workers Union had negotiated at one point, the company complained, a worker could get his day's quota of production in three hours of actual work and sit around the rest of the day.

The company also blamed featherbedding practices for the fact that the company could make glass in Oklahoma and deliver it in Pennsylvania cheaper than it could make it in Pennsylvania and move it through a doorway into the adjoining plant.

Rule changes are being considered by an arbitrator.

Gulf Oil Corporation took a fiveweek strike of 4,600 employes at its Port Arthur, Tex., refinery to support its position that employes should perform minor tasks outside their normal jobs when necessary to complete their work. It won some concessions from the union.

Chrysler Corporation, which has complained of higher costs due to loose work standards although its wage rates were competitive, suffered a long strike over work loads and efficiency.

It took a strike of 17 months before Pittsburgh department stores were able to eliminate many restrictive practices which made their delivery costs twice as high as those in similar cities. In addition to slowdowns, loafing and lack of discipline, the Teamsters Union was insisting on use of a helper on parcel delivery trucks. When the issue was settled, 324 unnecessary jobs were eliminated in store delivery departments alone. Other costs were

Many employers are resisting union efforts to introduce restrictive practices. The New York Telepho Company stood up against unattempts to restrict managen, flexibility in making maintenance assignments.

In some cities, the Meat Cutters and Butchers Union has tried to restrict prepackaging of meat. At one time prepackaged meat could not be sold in Chicago. In Kansas City, the union struck to try to enforce a demand that stores hire one meat cutter for every \$1,000 worth of meat sold a week to offset savings realized through prepackaging. This came to one butcher for every \$25 an hour—the price of two turkeys—in meat sales.

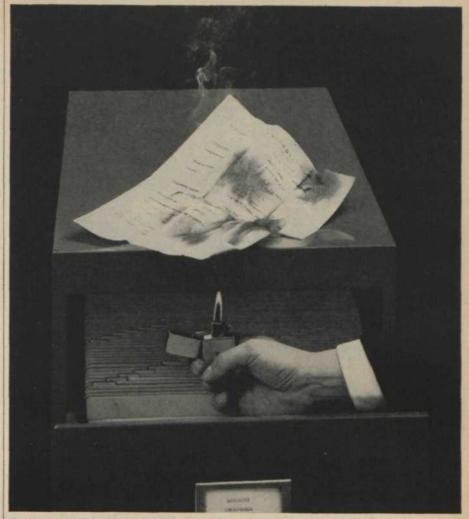
Legislative attempts at federal and state levels to end featherbedding have had little success.

Three federal statutes were passed in the immediate postwar years:

The Lea Act: This 1946 amendment to the Communications Act, applicable only to licensed broadcasters, dealt effectively with Musicians Union demands for payment of stand-by musicians (who were not needed or used), for hiring more staff personnel than are needed, and for payments for use of recorded music.

But much of the economic waste, which this law does not reach, comes from union jurisdictional requirements—the use of certain persons to perform specific tasks, which usually means using more workers than are really needed and often at higher pay than would be necessary if less skilled persons who could do the work were permitted to do it.

The Hobbs Act: This is an antiracketeering measure, amended in 1946 to cope with extortion by unions. It is supposed to stop the nion practice of demanding that a ion or a local driver be put on a k carrying an interstate shipt when it reaches the local nunity, or that an unwanted



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"Why don't they?"

"It's really most annoying. Why don't they do something about the parking problem in this town? It's hurting my business! It's costing me money!

"And why haven't they taken steps to eliminate the fire hazard next to our Elementary School? Why, my children's safety is at stake! In fact, I can name several other danger areas in our town. What's being done about them?

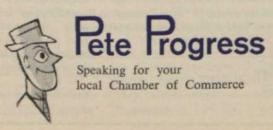
"Speaking of schools, they really ought to re-evaluate classroom and equipment needs in the light of our rapidly increasing population. And they should review teachers' salaries too, while they're about it.

"Also, why don't they ..."

"Let me interrupt here, Joe Businessman. Don't you think you should first identify 'them,' the people to whom you refer, those who should be doing this and that to improve your business and your community?

"Take a closer look at 'them.' You'll find that they bear a strong resemblance to ... you! If you'll pardon my grammar, 'You are they'!

"My advice to you, Joe, is: Join your local Chamber of Commerce, and give substance to your thoughts. You'll get results when you start thinking in terms of 'we' instead of 'they'."



FEATHERBEDDING

continued

union member be hired to help unload the truck. The need to prove in court that the union backed its demand by threats and violence makes enforcement difficult.

The Taft-Hartley Act: This 1947 law sought to apply the principles of the Lea Act to industry generally. It lists among unfair labor practices by unions any attempt to force an employer to pay for services which are not to be performed.

The Supreme Court virtually nullified this provision in 1953 when it decided, in two cases, that it did not restrict union insistence on performing unwanted work. One case involved charges by the American Newspaper Publishers Association against union printers for insisting on setting type which was never intended to be used.

The other involved Gamble Enterprises of Akron, O., which charged that the Musicians' Union insisted that a local band be hired to play overtures in the orchestra pit although a "name" band was performing on the stage and a pit orchestra was not needed or wanted by the promoters.

When Taft-Hartley amendments were being considered in 1953, Sen. Robert A. Taft, coauthor of the law, asked that the so-called antifeather-bedding provision be strengthened or repealed because it was useless as it stood. Since the Supreme Court decisions, for instance, employers have relied on the provision 229 times to bring charges against unions, but none has been successful.

Most proposals for strengthening the measure follow the approach in the original Hartley bill passed by the House. It made it unlawful to force an employer to accede to featherbedding practices and defined featherbedding as requiring an employer to hire more persons than are reasonably needed to perform a service, to pay money in lieu of employing unneeded persons, to pay more than once for a service, to pay for a service not performed, or to impose any restrictions on the use of tools, equipment or materials.

Other laws sometimes used are:

The Antitrust Laws: Labor organizations are generally exempt from antitrust restrictions, but not whe they act in concert with an eployer. The Department of Just has, from time to time, successipprosecuted unions which constr.

with others to impose restrictive practices.

A common, costly make-work practice in the construction industry is for union glaziers to insist on glazing window sash, doors and similar products on the job site, or for carpenters or other crafts to refuse to handle sash that has been glazed at a factory or other central point, where it can be done more cheaply.

Last fall the government obtained a court order in which the Painters Union Local 27, a Chicago glaziers' local, agreed to stop actions to restrain the distribution and use of preglazed products. The union was charged with conspiring with a glazing contractor to insure that glazing was done on the job site by forcing builders and manufacturers of preglazed products to pay extra when preglazed products were used, or forcing builders to discontinue the use of preglazed materials.

"The effect of this was to deny to the public the benefits of cost savings," the government pointed out. The practice is estimated to have added \$28 million to the cost of 225,000 homes built in the Chicago area over a five-year period.

Assistant Attorney General Victor R. Hansen, in charge of the Antitrust Division, said the action enjoined practices which were outside the immunity the antitrust laws afford labor unions, while at the same time recognizing the legitimate activities of unions.

Three years ago the Attorney General's National Committee to Study the Antitrust Laws recommended that market control and other restrictive union practices which are not legitimate union objectives be made unlawful, while continuing exemption of legitimate union activities.

Outlawed would be such union practices as attempting to control or fix prices, control production, limit and restrict areas in which goods could be bought or sold, resist technological improvements, or prevent employer use of certain products or services—whether or not the union conspired with an employer.

Nothing has come of the recommendations.

State Laws: State antitrust laws, which apply only to businesses which do not affect interstate commerce, are of little value in coping with featherbedding. A California Superior Court has ruled that the ate's antitrust law does not provit restrictions imposed by the nters Union on the use of paint and sprayers and on the size

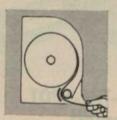








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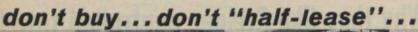
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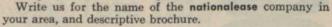
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FEATHERBEDDING

continued

of paint brushes. The restrictions cost painting contractors about 50 per cent more in payroll.

The restriction on labor-saving devices is an effort to maintain employment and, as such, is a lawful labor objective, the court said.

In Arkansas last fall, voters rejected an antifeatherbedding referendum which would have made it unlawful to require an employer to employ more persons than he deemed necessary.

Obviously, success in attacking featherbedding will depend largely on direct action by employers. At present, the problem is being tackled on an industry-wide basis in the railroad industry as a bargaining issue this year, and in construction as a joint labor-management project.

In other industries, progress will have to be made by individual employers through individual actions.

Railroads: Work rules on the railroads have been frozen for three years, but will be up for discussion when current three-year agreements come up for renewal Nov. 1. The industry made clear its determination to seek relief from so-called featherbedding when Daniel P. Loomis, president of the Association of American Railroads, asked the unions to join management in asking President Eisenhower to appoint a nonpartisan citizens committee to help solve the problem.

Mr. Loomis charged that antiquated railroad work rules cost the public more than \$500 million a year and "hang like an economic albatross around the neck of American progress."

The unions deny they are guilty of featherbedding. In a brief filed with the Interstate Commerce Commission, they said that if there is any featherbedding, it is in management, "which requires more executives to supervise less and less employes."

The railroads charge that featherbedding exists in three major areas:

- 1. An antiquated dual mileageday basis of paying train crews, which was set 40 years ago when trains were smaller and slower.
- 2. Jurisdictional work separations—rules that ban road crews from working in yards, and vice versa, and train crews from crossing district and seniority boundaries.
- 3. Unnecessary firemen and other train positions.

The cost of featherbedding, r.

railroads point out, is reflected in higher travel fares and freight rates and higher prices generally which add to living costs and pressure inflation.

Make-work destroys work, according to the railroads. By inflating charges to customers it undercuts the railroads' competitive position; this leads to loss of business and fewer jobs.

Construction: The unionized construction industry is alarmed because it may be pricing itself out of business. Because of high costs, it is losing business to open-shop contractors, to industrial firms which do more of their own construction and employ members of industrial unions, and to the do-it-yourself trade.

During the recession, industrial unions increased pressure on manufacturers to do their own construction work, using their own maintenance employes. Jurisdiction over construction work connected with established industrial sites has been an issue between industrial and building trades unions in the AFL-CIO.

The National Constructors Association, representing unionized contractors in heavy industrial construction, received warnings from some large oil and chemical companies that they might have to switch to nonunion contractors unless union labor increased its efficiency.

The Construction Industry Joint Conference was formed out of a meeting of building trades union presidents and executives of national associations of general and specialty contractors. John T. Dunlop, Harvard University professor who for 10 years umpired building trades jurisdictional disputes, was made impartial chairman. Local Joint Conferences will be set up in metropolitan areas.

Objectives of the Conference are to tackle mutual problems, to promote the welfare of the industry in the public interest, and to preserve and promote the contract method of construction.

The industry is said to be the largest in the country, employing three million on-site workers and many times more in supporting occupations. About \$60 billion a year is spent for plants, commercial uildings, highways, dams, military stallations, schools, churches, nes and other construction.

mes D. Marshall, managing dir of Associated General Conirs, says that, through the Joint

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FEATHERBEDDING

continued

Conference, "we're trying to take all the lost motion out of the construction industry in order to compete.

"There are 101 things we can do." Eradicating wasteful union practices is only one of them, and a small facet of the entire picture, he

What are the featherbedding practices in construction?

Early last year the building trades unions, under pressure from the industry, announced a 10-point policy program aimed at eliminating wasteful practices.

The "Ten Commandments" condemned make-work tactics, standby crews, forced overtime, limitations on production, restrictions on use of labor-saving tools and wasting time at the beginning and end of a day.

Experience indicates that workers on the job and local union officials have not accepted the "Ten Commandments" as readily as had been hoped. The joint conference will try to get better compliance.

Here are other featherbedding practices in construction which, in most instances, are a matter of official record:

- ▶ Requiring an acoustical contractor to use members of the Sheet Metal Workers Union instead of his own unionized employes. It doubled his labor cost.
- ▶ Requiring a dampproofing contractor to use two men, besides himself, on jobs he could do alone. When he refused, the union boycotted him and he lost most of his business.
- ▶ Restricting the use of paint spray guns. This forced substitution of a more expensive paint, which was also more expensive to apply, on construction of the United Nations building.
- ▶ Requiring wages up to \$30 a day for a skilled operational engineer or other person to press a button to start a compressor at the beginning of a day and to turn it off at the end.
- ▶ Forcing air-heating contractors to make their own furnace fittings, using higher-paid sheet metal workers, although better fittings could be bought for less from the factory.
- ▶ Refusal of plumbers to use prethreaded pipe, to install preassembled plumbing walls, or to handl plastic pipe.
- ▶ Requiring that one of every the or four skilled craftsmen be a man; limiting the ratio of artices to journeymen.

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LET CONSUMERS GUARD COMPETITION

Consumers are being threatened by an economic masquerade.

Behind false faces variously labeled "preservation of competition," "aid for small business," "monopoly control," "protection against inflation," or "fair wages" is an odd galaxy of congressional bills which would concentrate real control of the market place in Washington.

All these measures are offered as preventives of what their sponsors regard as abuses in present business operations. So extreme are the differences in their approach that one of them attempts to prevent lowering of prices to some customers while the stated purpose of another is to discourage successful firms from charging more.

The hope is that the first will protect small business, the second prevent inflation, but both are based on the belief that companies which have a large share of any market not purely local must, of necessity, be predatory.

Supporters of these and other bills would, therefore, prohibit particular kinds of business behavior with no regard to the variations of particular market circumstances. They would impose regulations which, in many applications, would do serious harm to the competitive system which they say they are determined to protect.

In their search for new abuses to denounce, investigate and try to outlaw, the regulation-minded have demonstrated no very clear understanding of how the competitive process really works.

Those who want the government to pre-empt control of the economic system have concentrated their attention on ways to limit, or equalize or control producers.

But competition depends on consumption as well as on production. Until the consumer makes his choice among the available goods, competition has had no market effect. His choice may be guided by whim, quality, service, convenience, even stupidity but, in making it, the consumer aids one competitor at the expense of another. If enough consumers make the same choice, one producer gains strength—

the others lose it. True friends of competition accept this result as the reasonable price we pay for the benefits of the free market. They know that any producer who manages to give the consumer greater value than other producers can offer may gain business at the expense of his competitors. They know, too, that consumers and the nation at large gain more than the competitors lose.

Supporters of regulation, on the other hand, see this as a grievous inadequacy of the free market place. Mistaking preservation of competitors for preservation of competition, they press for controls to combat administered prices; for subsidies to depressed areas and home construction; for economic benefits for those people or places to whom consumers, in exercising their free choice, have denied them.

Each time this is accomplished, resources are wasted, and the consumer is induced by government to buy or use goods which he would refuse in the absence of subsidies.

Even its friends do not deny that the freemarket process has deficiencies, that some firms, made strong by public acceptance, may sometimes need policing by the antitrust laws which businessmen, economists, lawyers and citizens agree have played a significant role in our economic development.

This is quite different from permitting a government bureau to determine how much of the market a firm may undertake to serve, what practices it shall follow, what prices it shall charge.

These decisions have belonged traditionally to the consumer. He has made them in a way that has given him, in this country, the world's finest standard of living. If that standard is to continue to rise, he needs to insist that government keep its hands off the competitive process. Regulation breeds new regulation—simply because its own inadequacies bring pressures for new and wider rules.

Each expansion of control will weaken still further the efficiency of private enterprise and narrow the consumer's right to buy what he wants where and when he wants it.



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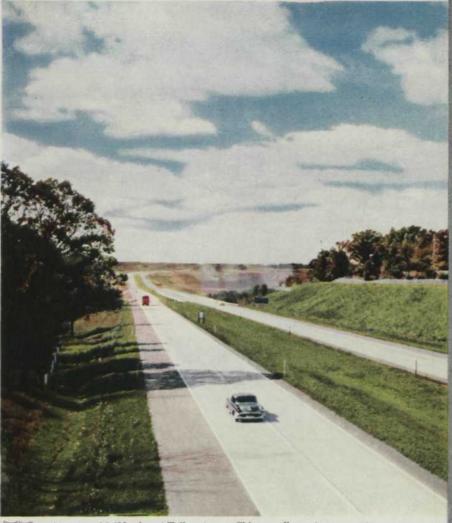
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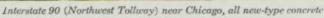
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